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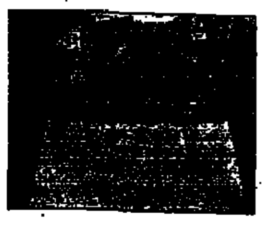

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WORLD NEWS

Mexican officials admit drug cartel bought domestic bank in 1995

Mexican drug traffickers took advantage of the country's financial turmoil and lax regulation in 1995 and 1996 to buy a small domestic bank. It is the first admission that cartels succeeded in infiltrating Mexico's banking system. Page 16

Cook firm over settlement visit
Robin Cook, UK foreign secretary, stood firm in his intent to visit a Jewish settlement in Arab east Jerusalem as part of his Middle East peace-brokering effort on behalf of the European Union. Page 5; Editorial Comment, Page 15

European Union eases beef ban
A two-year ban on exports of British beef is to be eased after European Union farm ministers gave overwhelming support to a scheme allowing shipments from Northern Ireland. Page 10

European agricultural policy reform
Franz Fischler, European Union agriculture commissioner, is to outline his plan for the most wide-ranging reform in the 36-year history of the *Common Agricultural Policy*. Page 2

German opposition urges prudence
Germany's opposition Social Democratic party stressed financial prudence when it agreed the SPD manifesto for the German general election on September 27. Page 3

Clinton questions sex claims
The Clinton administration questioned the credibility of former White House volunteer Kathleen Willey, who accused President Bill Clinton of making a sexual advance in the Oval Office in 1993. Page 8

US attacked over climate treaty
Raul Estrada-Oyuela, the Argentine diplomat who chaired the Kyoto talks on tackling climate change, claimed that US politicians' opposition to the global warming treaty reflected US isolationism. Page 8

White House: Ulster peace 'close'
President Bill Clinton followed Tony Blair, the UK prime minister, in describing a peace settlement in Northern Ireland as "agonisingly close" and urging the region's politicians to make the necessary compromises. Page 10

China Congress rebels over Li
China's parliament displayed rare adversarial reflexes as more than 10 per cent of delegates refused to endorse outgoing premier Li Peng in his new job as chairman of the legislature. Page 6; Observer, Page 15

Hong Kong unemployment rises
Hong Kong's unemployment rate jumped in the three months to the end of February, climbing to 2.9 per cent from 2.5 per cent in the quarter to the end of January. Page 6

Kuwait appoints new government
Sheikh Jaber al-Ahmad al-Sabah, Kuwait's Emir, accepted the government's resignation, reappointed the prime minister and asked him to form a new cabinet. Page 5

Iraq bomb blast kills five children
Five children were killed when a bomb from the 1991 Gulf war exploded in Basra, southern Iraq.

Dr Benjamin Spock dies, aged 94
Dr Benjamin Spock, the paediatrician who became known as the "father of the baby-boomers", has died at the age of 94. Page 8

FT growth
Worldwide sales of the Financial Times reached a record of 353,548 copies a day on average in February, up 15.4 per cent on February 1997, according to the Audit Bureau of Circulations.

BUSINESS NEWS

Outsider appointed to head Bank of Japan in wake of corruption scandal

Japan broke with tradition by appointing an outsider as governor of the Bank of Japan. Masaru Hayami, former head of Nissho Iwai, one of Japan's largest trading companies, succeeds governor Yasuo Matsushita, who offered his resignation after the arrest of a senior bank official on corruption charges. Page 16

Unilever, the world's biggest margarine producer, confirmed that its Van den Bergh subsidiary was developing a spread that can reduce human cholesterol levels by up to 10 per cent. Page 17

Deutsche Morgan Grenfell's best known US investment bankers have written to clients to dispel "false rumours" being spread by "envious competitors" and have pledged their future to the German bank. Page 18

UPS, the US express parcels group, has teamed up with the German post office to launch a rail-based parcels network, saying that Deutsche Bahn, the train operator, is not providing good service. Page 4

Telefónica de Espana, the Spanish telecommunications group, said it would launch its international division on the stock market as part of an overseas expansion. Page 17

Olivetti, the Italian telecommunications and information technology group, will announce on Thursday a commercial partnership with Xerox of the US to strengthen and modernise its range of office equipment products. Page 22

BTR, the UK conglomerate, raised about £650m ($1bn) with the sale of two building materials groups as it moves towards becoming a pure engineering company. Page 17

The European Commission approved the $13bn merger of Price Waterhouse and Coopers & Lybrand, the accountancy firms, saying the collapse of a similar merger between KPMG and Ernst & Young had figured in its decision. Page 20

Cendant, the international direct marketing group, raised the stakes in the battle for American Bankers Insurance, lifting its bid for the Florida-based credit insurer by about 15 per cent to $3.1bn, or $67 a share. The bid challenges American International Group's offer of $2.7bn, or $58 a share, which has been accepted by the ABI board. Page 17

Ciba Specialty Chemicals of Switzerland reported a strong rise in underlying profits for its first year but disclosed higher than expected exceptional charges to cover the cost of its demerger from Novartis, the drugs group. Page 17

The Belgian financial services group formed by the merger of Belgium's Kredietbank, Cera Bank and ABB Insurance could be the country's biggest company by market capitalisation at about $13.5bn. Page 23

Wilde Sapte, one of the UK's leading law firms, is to join the law network of Arthur Andersen, the accountants. The move gives Andersen access to the City of London's financial legal services market. Page 10

Alltel, a telecoms carrier in the US south-east and Midwest, announced a $4bn purchase of 360 Communications, a wireless group. Page 18

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 37

PRO-EUROPEAN PRIME MINISTER CRITICISED FOR KEEPING DECISION TO JOIN SECRET AND ACCEPTING DEVALUATION OF DRACHMA

Greek stocks up 7% on ERM entry

By Kerin Hope in Athens and Richard Adams and Philip Coggan in London

The Greek stock market jumped more than 7 per cent yesterday, as investors reacted enthusiastically to the drachma's entry into Europe's Exchange Rate Mechanism at the weekend. But the Socialist government was criticised for accepting a 12.1 per cent devaluation of the national currency as the price of entry.

Costas Simitis, the pro-European Greek *prime minister, faced* hostile reaction from hardliners in his cabinet, who were not informed in advance of the decision to join the ERM several months earlier than expected. Greece had signalled its intention to join European economic and monetary union on January 1, 2001, a date which would not require it to join the ERM until the end of this year.

Over the weekend, the EU monetary committee agreed a new central rate of Dr357 to the Ecu, a 12.1 per cent drop from Friday's fix of Dr313.7. The old notional central rate was Dr295.269 to the Ecu.

The Greek government took the opportunity to launch a E1.5bn eurobond yesterday. The managers were able to increase the amount raised by the bond, which has a 10 year maturity and a coupon of 5.75 per cent, because of strong demand.

Negotiations for entry to the ERM were kept secret to avoid a sustained attack on the drachma, which has come under intermittent pressure since last year's Asian crisis.

Costas Karamanlis, leader of the fragmented conservative opposition, accused the prime minister of "lying to the Greek people" because he failed to signal the switch away from the "hard drachma" policy, which pegged the currency to the Ecu.

Many Greeks face bigger mortgage repayments after choosing loans denominated in foreign currencies at significantly lower interest rates. Small and medium-sized Greek companies have borrowed in foreign exchange without hedging against the risk of a drachma depreciation.

During late trading in Europe, the drachma was exchanged at Dr347 against the Ecu. Against the D-Mark, the drachma was also firmer at Dr174.9, down from a session peak of Dr172.3 and compared with Friday's pre-devaluation level of Dr170.

Analysts said the drachma's advance yesterday reflected rising confidence in Greece's chances of qualifying to join the single currency by 2001, two years after its planned launch. The government has announced plans to shrink Greece's public sector, which still accounts for more than 50 per cent of gross domestic product, significantly over the next two years.

A senior Greek banker said: "Today has been an encouraging start, but interest rates must come down fairly fast before these measures can be counted a success."

Short-term interest rates declined marginally yesterday, but several analysts said the first real test of interest rate trends would come at tomorrow's finance ministry auction of treasury bills following the expiry of government bonds worth Dr600bn.

Much milder reaction greeted the decision to revalue the punt, which revalued by 3 per cent at the weekend. Analysts said the market had been expecting a revaluation, to allow Ireland to enter the single currency next year. The punt closed at DM2.508, a little stronger than Friday's closing level of DM2.507.

Shares in Ireland showed a more subdued response but still closed at an all-time high.

Cutting the cost of the euro, Page 3
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Unilever chairman warns of Emu impact

The European economy will be dealt a "juddering" shock by the imminent launch of economic and monetary union, Niall FitzGerald, chairman of Unilever, the Anglo-Dutch consumer products group, warned yesterday.

He urged Europe's political leaders to "come clean" about the impact of Emu. The single currency would force companies to be more competitive, exposing protectionism and unproductive subsidies and forcing "long overdue" reforms in labour markets.

"In every country, in every sector, in every community there will be winners and losers," he said. "[But] we all believe that in the long run the winners will far outnumber the losers." Report, Page 3

West divided over sanctions on Yugoslavia

By Guy Dinmore in Belgrade

No way through: a police cordon stops a protest march by 2,000 Albanian women in Pristina, Kosovo, yesterday Picture AP

Western governments are divided over whether to impose further sanctions on Yugoslavia in response to its police crackdown on ethnic Albanians in the Serbian province of Kosovo.

Diplomats say the US is pushing hardest for a full range of sanctions against Belgrade while the strongest opposition comes from Italy, which has close trade ties with Yugoslavia, and Russia.

Yugoslavia has until Friday to meet a series of demands on Kosovo or face "further international measures", including a freeze on government funds held abroad.

Additional sanctions being discussed by the six-nation Contact Group – which also includes France, the UK and Germany – *include a downgrading of diplomatic* relations and the withdrawal of landing rights abroad for the national airline, JAT.

The Contact Group could not reach a consensus on such sanctions at its meeting in London on March 9, the diplomats said. The governments agreed instead to call on the UN to impose a blanket arms embargo against Yugoslavia.

The Contact Group has demanded that President Slobodan Milosevic, the federal Yugoslav president, withdraw his special police forces, allow humanitarian organisations access and start a meaningful dialogue with the ethnic Albanian leadership which wants independence for Kosovo. The six countries are to meet again on March 25.

At least 80 ethnic Albanians, many of them women and children, have been killed in a two-week operation by special Serbian police forces against villages in central Kosovo harbouring rebels of the separatist Kosovo Liberation Army. About 20,000 Albanians have been displaced.

Hubert Védrine, the French foreign minister, said at the weekend that the Contact Group had also discussed excluding Yugoslavia's soccer team from this summer's World Cup in France, but had dropped the idea at an early stage. Mr Védrine's counterparts from Britain and Germany also raised objections to such a move at a weekend meeting of European Union foreign ministers in Edinburgh. "It would rally all Serbs together against the west and look like collective punishment rather than selective punishment," one diplomat said yesterday.

Yugoslavia was denied its place in the 1992 soccer European Championships because of the Serbian part in provoking the wars of the Yugoslav succession.

European governments fear that a tough policy towards Belgrade would only play into the hands of Vojislav Seselj, the ultra-nationalist opposition leader who came close to winning the Serbian presidential election last year.

Mr Milosevic has shown little sign of heeding the Contact Group demands.

Exel and Mid Ocean form $8bn offshore reinsurance group

By Christopher Adams, Insurance Correspondent

Bermuda, the fast-growing offshore centre for property catastrophe reinsurance, is the scene of the latest in a string of deals reshaping global insurance and reinsurance markets.

Exel, one of the island's biggest insurers, yesterday announced an agreed $2.9bn bid for rival Mid Ocean.

The bid is the biggest to involve two Bermuda-based insurers and shows that even the world's youngest and most successful insurance companies have begun to feel the pressure to diversify resulting from intense competition.

Exel, which has 26.8 per cent of Mid Ocean, is to issue 1.0215 new shares for every one in Mid Ocean it does not already own. The combined group will have assets of $9.1bn and market capitalisation of more than $8bn.

Shares in Mid Ocean jumped $9 to $72 on the New York Stock Exchange. Exel edged $1 higher to $72¼.

Analysts said each would give the other a wider spread of business. Cost savings would be minimal because of the nature of the businesses, which employ relatively few staff.

Exel is the older of the two, set up in the early 1980s to specialise in North American liability insurance. Since then it has diversified into other areas such as property and catastrophe reinsurance, professional indemnity and financial reinsurance.

Mid Ocean was the first of several companies established in Bermuda in the early 1990s to meet increased demand for property and catastrophe reinsurance after Hurricane Andrew.

Under Michael Butt, chief executive, who was formerly head of Eagle Star, the British-based composite insurance subsidiary of BAT Industries, Mid Ocean has also begun to diversify, buying Brockbank, one of the largest managing agencies at Lloyd's of London, last year.

The combined group would derive 40 per cent of its earnings from insurance, 38 per cent from reinsurance and 22 per cent from interests at Lloyd's.

Other companies in Bermuda have already sought locally-based partners. Ace bought Tempest Re in 1996, while Partner Re acquired Société Anonyme Française de Reassurances last year.

Exel reported pre-tax profits for its first quarter – to the end of February – of $155.4m compared with $108.1m previously. Operating earnings, excluding realised investment gains, were $92.5m versus $75.5m. It also unveiled a $500m share buy-back.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,665.29	(+62.77)
NASDAQ Composite	1,783.12	(+11.46)
Europe and Far East		
CAC40	3,598.26	(+58.03)
DAX	4,983.85	(-5.80)
FTSE 100	5,785.1	(+2.8)
Nikkei	16,861.14	(-199.00)
US LUNCHTIME RATES		
Federal Funds	5.6875%	
3-mth Treas Bills: Yld	5.09%	
Long Bond	103¾	
Yield	5.87%	
OTHER RATES		
UK: 3-mo Interbank	7¾	(same)
UK: 10 yr Gilt	109.7578	(109.357)
France: 10 yr OAT	104.54	(104.52)
Germany: 10 yr Bund	108.21	(107.91)
Japan: 10 yr JGB	118.12	(108.62)
NORTH SEA OIL (Argus)		
Brent Dated	$10.755	(12.5)

GOLD		
New York Comex		
(Mar)	$294.5	(295.3)
London	$294.25	(295.05)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6675	
DM	1.8205	
FFr	6.10575	
SFr	1.4814	
Y	128.78	
London:		
$	1.6656	(1.6705)
DM	1.8208	(1.8167)
FFr	6.1042	(6.0855)
SFr	1.4805	(1.4763)
Y	128.655	(128.18)
Tokyo close:		Y 128.00
Sterling		
DM	3.0325	(3.0247)

Bahrain	Din1.250	Belgium	BFr80	Cyprus	£C1.35
Denmark	DKr21.00	Estonia	EKr34.00	Finland	Fmk19.00
France	FFr12.50	Gibraltar	£0.75	Greece	Dr450
Hungary	Ft340	Iceland	IKr285	Italy	L3400
Jordan	JD1.75	Kuwait	Fils750	Lebanon	Lt1.65
Lithuania	Lit21.00	Luxembourg	LFr80	Morocco	Dh18.00
Netherlands	Fl5.00	Nigeria	N120.00	Norway	NKr21.00
Oman	OR1.75	Poland	Zl 10.00	Portugal(Mainland)	Esc280
Qatar	QR13.00	S.Arabia	Rls13.00	S.Africa	R10.50
Spain	Pta275	Sweden	SKr22.00	Syria	SP 80.00
Switzerland	SFr3.80	Tunisia	Din2.000	UAE	Dh13.00

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COMMON AGRICULTURAL POLICY REFORM PROPOSALS PROMPTED BY TRADE LIBERALISATION AND EU'S ENLARGEMENT TO THE EAST

Fischler prepares to turn farmers into entrepreneurs

The European Union's agriculture commissioner will outline his blueprint to overhaul CAP tomorrow. He can expect a rough ride. **Michael Smith** and **Maggie Urry** report

Franz Fischler, the European Union's agriculture commissioner, will tomorrow outline his blueprint for the most wide-ranging reform in the 36-year history of the Common Agriculture Policy. A hostile reception is assured. The plan will immediately be denounced by farmers, and politicians throughout Europe are likely to rally to their cause.

The ballyhoo may be deceptive. The proposals may well be compromised in months of tortuous negotiations with member states. However, many diplomats and farm leaders believe the broad thrust of the changes will be implemented around the planned date of January 2000. And farmers will have to get used to change. Competitive pressures and the EU's enlargement to the east make further reform almost inevitable.

The proposals are part of the "Agenda 2000" package to streamline the EU for expansion to the east early next millennium. The EU is also revamping structural funds for improving regional infrastructure.

The CAP plan envisages cuts of up to 30 per cent in guaranteed minimum prices for the most important products – cereals, beef and dairy products. It also foresees removing production limits for cereals, together with compensation payments to offset farmers' loss of income. Mr Fischler says his proposals will turn farmers into export-hungry entrepreneurs and give consumers lower prices and improved quality.

The package comes at a cost, and critics say Mr Fischler's efforts have been too timid. It will lift the annual cost of the CAP by about 10 per cent. Mr Fischler makes no apologies, arguing that agriculture should be rewarded for helping to preserve the countryside. "It is important that we have an arrangement between society and the farmers that society is prepared to pay for the additional [environmental] services," he says.

Critics allege that never-ending subsidies will complicate EU enlargement and could make Brussels' position in upcoming world agricultural trade talks difficult to defend. The Commission's proposals, widely leaked over the last few weeks, are undoubtedly less radical than farmers feared and reformist countries like Sweden and the UK wanted. Some farmers, including many in the UK, welcome the opening up of markets.

But virtually all of them fear what they see as pointers to the eventual dismemberment of the CAP.

One concern is a plan to hand over about Ecu3bn ($3.3bn) of funds a year for beef and dairy farmers for member countries to distribute according to national criteria.

Some see a precedent. "The next question from member states is why should we send money to Brussels only to then have it sent back," says Hans Jonsson, president of the Federation of Swedish Farmers.

Farmers are also angry that they are not being fully compensated for price cuts and some are concerned that there will be a virtually free market in cereals, with guaranteed prices only in force during natural disasters.

But few outside farming communities argue that the CAP can survive as it is. Its initial purpose, born out of Europe's post-war desire for self-sufficiency in food, has long since vanished.

The original six member states wrote into the EU's founding treaty that the agricultural community deserved "a fair standard of living" and set up a system of guaranteed prices in depressed markets. By the 1980s, over-production meant expensive food mountains and ridicule for farmers and the EU. Europe's trading partners called for reform.

Defying intense opposition, Ray MacSharry, the then agricultural commissioner, introduced a means of limiting cereals production by paying farmers not to grow crops. He also brought in the principles of cutting support prices and making direct payments in compensation. While those changes levelled food mountains, they angered taxpayers who saw farmers being paid not to grow food. Commission projections show the surpluses reappearing again over the next few years unless reform is undertaken.

Cutting guaranteed prices should help keep food mountains low. It will also help the EU expand into eastern and central Europe, as well as bolstering its position in talks next year under the World Trade Organisation.

Enlargement is a particularly sensitive process because the five eastern and central European countries which begin accession talks with the EU this month have large, unproductive, agriculture sectors. The EU has no intention of extending existing CAP benefits to the new entrants. If it continued paying high prices to west European farmers it could hardly deny similar arrangements for those in the east. And while the EU could argue that eastern farmers should not be entitled to compensation for higher prices they never benefited from, agricultural economists believe that it will be impossible to maintain such a two-tier system in the long term.

The problem is delayed, but not solved, by the EU's plans for transition periods during which farmers in the new member states will not be full members of the CAP.

Similarly, the Fischler reforms tackle but do not end the EU's looming difficulties with the WTO. Europe is widely seen to have lost out in the last round of farm trade talks in the early 1990s, because of its failure to reform.

The next round is crucial, because world food markets are expanding as population and incomes in developing countries grow. Commission officials believe that if price subsidies and associated export aid are cut, the EU will be better able to defend its share of the growing market. Mr Fischler says the reforms he is proposing "bring us into a much more offensive position [at the WTO] because we can then offer something and make clear requests."

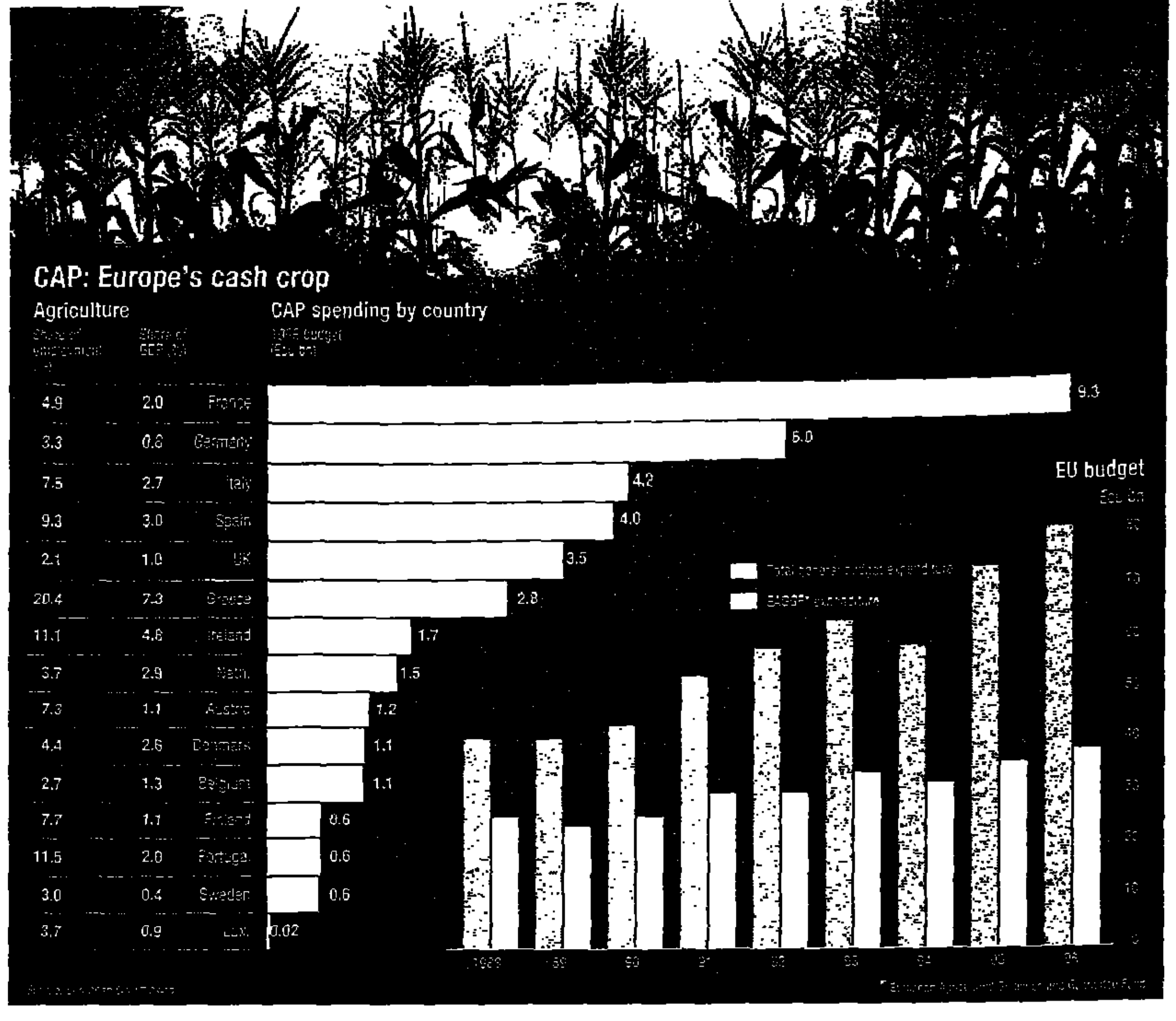
Europe's trading partners will still press for better access to the EU market and for lower agriculture subsidies. They will also question the system for compensating farmers for price cuts.

Such problems may obscure Mr Fischler's achievement in getting his plans taken seriously. His step-by-step approach has a more realistic chance of adoption than would have more radical plans. He has made good use of the eight months since first announcing outline reform proposals.

"He has done the rounds and listened, and he has come up with little sweeteners for everyone" says one farm union leader.

"The Italians will be tempted by rises in milk quotas, for example, and the national governments by powers to disperse funds. It will be difficult to get a united front against this."

But despite the package's accomplishments, it falls short of the deregulation the EU's trading partners want. Mr Fischler or his successors will still have to come back for more.



RURAL DEVELOPMENT

'Poor relation' to receive long-term benefits

By Michael Smith in Brussels

Rural development is a poor relation – or in European Union jargon a "second pillar" – to the CAP's subsidies regime in supporting the countryside. The reforms tomorrow will give it a more exalted status, although the full benefits will take years to materialise.

The EU's rural development policy helps farmers diversify into other activities, aids changes to the structure of agriculture and provides assistance for environmental improvements.

Recent initiatives include an early retirement scheme for farmers and projects to encourage forestation.

Non-farmers have benefited at the margins from initiatives such as village renovation and investment in tourism.

Tomorrow's reforms aim to simplify rural development rules and overhaul their financing.

A plethora of regulations will be consolidated and there will be better integration with EU structural funds for poor regions.

In the past, confusion over fund roles has led to duplication. In recent years one farm building in the Netherlands has been painted five times, says one official. "These reforms should stop that kind of thing."

Rural and environmental groups have mixed feelings about the reforms.

"Its strength is its integrated approach and the high prominence given to the environment," says Natacha Yellachich of the World Wide Fund for Nature.

"Its weakness is that rural development funds will probably represent only about 10 per cent of the CAP by the end of 2006."

However, the reforms will allow for that percentage to grow. This is because much of the rural development funding is to be moved to within the agricultural financial "guideline" which allows expenditure to grow by 76 per cent in real growth of gross domestic product across the EU.

Its main competitor for this expanding amount under the guideline will be direct aid for farmers which from 2002 or so will stop growing.

Rural development funds should thus be able to take the lion's share of the increase in the funds available.

Environmentalists welcome this but fear rural development may be too narrowly defined.

Leaks of re-draftings of the rural development regulation show that commitments to extend rural development to the wider community outside farming have been watered down.

EU officials say rural development funds will not be denied to non-farmers. "We will apply it liberally," says one.

Philip Lowe, director of the centre for rural economy at Newcastle University in the UK adds that rural money must be spread more widely than just to farmers.

"Otherwise it will go to an ever declining proportion of the population."

EU REGIONAL AID WIDE-RANGING CHANGES COINCIDE WITH CAP REFORM

Countries aim to cling on to Brussels hand-outs

By Lionel Barber in Brussels

The planned reforms in the Common Agricultural Policy will take place alongside separate but equally important changes in the European Union regional aid budget.

Together they account for more than 80 per cent of all EU spending. Both must undergo far-reaching reforms in order to prepare the EU's enlargement to the poorer, farm-intensive countries of central and eastern Europe.

In some ways, the regional aid budget presents a more daunting challenge than the CAP because it enjoys a far bigger political constituency. Just over half of the EU's population benefits from Brussels hand-outs which range from building roads and bridges to funding vocational training and environmental clean-up.

The European Commission wants to shrink the share of the population affected from 51 per cent to between 35 and 40 per cent. It also wants to reduce the present number of aid categories from six to three; to increase the role of national governments in the disbursement of aid; and to put enough aid aside to help future members from eastern Europe to adjust.

Thus, the Commission will propose freezing spending on regional aid in real terms between 2000 and 2006 at 0.46 per cent of EU gross domestic product. This amounts to around Ecu230bn ($250bn) for the existing 15 member states, a slight decrease over current levels. Some Ecu45bn would be set aside for new members.

The most sensitive area is "Objective One". This is the largest category of money, directed at deprived areas which have a GDP per capita of less than 75 per cent of the EU average over the last three years. The number of people covered would fall from 25 to 20 per cent of the EU's population, though the Commission has proposed six-year transition periods to soften the blow.

Within the UK, Northern Ireland, as well as the Highlands and Islands would almost certainly lose their status as Objective One regions. Merseyside and South Yorkshire look vulnerable. Other sensitive areas include the Spanish region of Valencia, the French island of Corsica, and the Italian region of Puglia, and the Franco-Belgian border regions of Valenciennes and Hainault.

The proposed changes to Objective Two covering industrial and rural areas are troubling the British government. Britain wants money allocated to national levels of gross domestic product and is worried that the Commission is focusing too much on unemployment. The reforms therefore present the Labour government with a dilemma: how to defend existing privileges while honouring commitment to enlargement, and how to claim poverty while arguing that Britain is leading the EU in terms of economic policy.

Ireland, which is regularly clocking annual growth rates of above 5 per cent, is clinging to its share of regional aid. So are Spain and Portugal, which in the same breath are celebrating imminent participation in monetary union. Germany wants to preserve, even extend, its share of aid, but also wants to reduce its contributions to the EU budget.

The Commission believes that the package has struck a balance between the revisionist Germans and the Spanish defenders of the status quo. But the final proof will be whether the 15 member states can reach a deal before the European Parliament elections next June. The risk of a delay is that regional aid – like CAP – could turn into a political football, further muddying the path to enlargement.

COMMODITIES PLANS AFFECT CEREALS, BEEF, DAIRY, OLIVE OIL AND TOBACCO

Move towards freer market

By Maggie Urry and Michael Smith

If Agenda 2000 is the biggest step the EU has ever taken in changing the Common Agricultural Policy, as commissioner Franz Fischler asserts, part of the reason is the far-reaching reforms proposed for the different commodity sectors.

The 1992 reforms only covered cereals and beef, but this time round, says Mr Fischler, "we have a reform in the cereals, beef and dairy sectors." There are also big changes in the olive oil and tobacco sectors, although the reforms still do not affect the EU's heavily subsidised sugar regime.

Mr Fischler adds that this round of reforms goes much deeper than its predecessor. After decades of government subsidies, "in cereals, after this reform, we will have more or less a free market," a step which could greatly help Europe's export efforts in an era of world trade liberalisation.

As a whole, the proposals for commodities would cut the "intervention" prices the EU pays for cereals, beef and dairy products which cannot be sold on the market. They would also offset the potential loss to farmers' incomes by paying compensation based on acreage or herd sizes. This should help end the incentives to produce ever more food.

The changes build on the 1992 reforms. Those cut cereal intervention prices by 29 per cent over three years. They also introduced a system of payments based on area rather than crops grown, as well as the "set aside" method of limiting production by paying farmers to leave fields fallow.

This time, the plan for cereals is to cut the intervention price by 20 per cent in one go, in the 2000-01 season, and to retain set aside only as an emergency measure.

But Mr Fischler has also learnt from the mistakes of former commissioner Ray MacSharry. After the 1992 reforms, world grain prices rose and farmers enjoyed a bonanza, selling their cereals well above intervention prices and scooping up payments intended to compensate them for the cut in guaranteed minimum prices.

This time, the rise in area payments is calculated to repay only half the income fall implied in the price cut. The Commission expects rising world demand for grains to keep the world price above intervention levels.

The greater role of world market prices should allow export subsidies to be squeezed out of the system, giving EU cereal farmers free access to the growing world market without upsetting the World Trade Organisation. Reform is not so simple in other sectors. Beef surpluses are likely to build up again in the near future.

Fischler: 'In cereals we will have more or less a free market'

Although they have temporarily been brought into line through the BSE crisis, which has cut both production and consumption, WTO restrictions on exports will increase Europe's stock of unsold beef. In an attempt to bring the sector back to balance, Mr Fischler proposes a 30 per cent cut in prices, to be implemented over three stages.

Sharp as the price cut is, critics such as the UK government say it does not go far enough to correct over-supply. Prices will still be above world market levels, preventing the end of subsidised exports.

The original proposals for the dairy sector envisaged limited reform, with a 10 per cent price cut and no change in the production quota. But after pressure from some member states, the Commission increased the intervention price cut to 15 per cent, and proposed a 2 per cent increase in the quota, part of which will be directed at young farmers.

Neil Davidson, vice-president of the European Dairy Association, says the 15 per cent price cut gambles that the extra quota can be absorbed in increased exports of cheese.

Plans to reform the regimes for "Mediterranean" produce are less concrete but leaks about olive oil proposals have caused alarm in Spain where farm leaders say up to a third of olive groves are at risk of being abandoned.

The Commission has floated the idea of basing aid on a per-tree basis, and the Spanish have been planting trees prodigiously in anticipation of the measures' implementation. This has distorted the aid regime, decreasing the amount of aid available to olive oil farmers in the other countries.

The Commission is planning to move to a transitional regime this year which will allocate each country a given share of total aid. In the new regime trees planted after May 1 will not be taken into account. Tobacco proposals, already announced, aim to provide greater rewards for quality and make quotas more flexible. Proposals to reform the wine regime have been delayed until the middle of the year.

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VIEW FROM THE LAND CUTS IN SUPPORT PRICES WILL NOT BE FULLY COMPENSATED AND MANY WILL GIVE UP UNLESS THE CHANGES ARE MODIFIED

Shrewd farmers see the way the wind is blowing

By Alison Maitland

The most striking thing about the response of European farmers to the agricultural reforms is that there isn't one. Far from a united position, the reactions are many and conflicting.

Take Francis Capelle, a large grower of cereals, sugar beet and vegetables near Rheims in the fertile Paris basin. "The reforms are a good thing in the sense they will boost our trade," he says. "Farming is a business like any other and has to be competitive."

Mr Capelle saw which way the wind was blowing six years ago and diversified from heavily-subsidised cereals into potatoes and vegetables. Only a third of his income now comes in direct aid from Brussels; his neighbour, confined to wheat and sugar beet, depends on subsidies for two-thirds.

But if Mr Capelle is likely to survive at world market prices, he knows small family farms in marginal areas will struggle to do so. Reconciling these different demands has led to "extreme tensions" in the main French union, the FNSEA.

"The FNSEA has great difficulty because they can't represent the farmer in the Paris basin and the farmer in the Massif Central at the same time," he says. Similar conflicts face farming organisations in Germany, where the needs of Bavarian smallholdings differ greatly from those of large, competitive former state farms in the east.

"We're deeply concerned and opposed to these proposals," says Hans Kulmus, head of commodities at the Bavarian Farmers' Association. Cuts in support prices for beef would not be fully compensated, leaving farmers with only 60 per cent of their former income. Many will give up unless the reforms are watered down.

Bavarian farmers worry that more of their subsidies will come as highly visible direct payments rather than fixed support prices which put a floor in the market. Given the squeeze on the German budget, "opinion may go against farmers still getting subsidies," he says.

Bavaria's farmers depend heavily on milk production and oppose any increase in milk quotas, on the grounds that increased supply will depress prices. The Italian Farmers' Confederation (CIA) is mustering up to 15,000 producers to demand abolition of quotas when farm ministers meet in Brussels on March 31.

Francesco Serra Caracciolo, head of international affairs, says quotas prevent Italy producing enough milk to expand output of its specialist cheeses such as Parmesan and Grana Padana. His union, unlike the rival General Confederation of Agriculture, representing big farmers, sympathises with plans to curb individual compensation payments.

This issue bitterly divides European farmers, with the UK arguing it would penalise its big, efficient farms, and the Greeks strongly in favour as a way to preserve their small producers. Mr Serra Caracciolo accepts that the lack of farmer unity partly reflects the huge compensation many cereal farmers reaped from the 1992 CAP reforms. The latest reforms are an extension of those measures.

Campaigns by Spanish olive growers and French cattle breeders have emphasised national or sectoral, not industry-wide, preoccupations. But on one thing all farmers probably agree. "EU enlargement is a political objective," he says. "Why should farmers alone pay for this fundamental foreign policy choice?"

Copa, the European farmers' organisation, acknowledges that the lack of a united front strengthens the hand of the European Commission in pushing for reform. It is arguing European agriculture has social and environmental roles beyond food production, and these must be preserved in face of pressure for further trade liberalisation.

John Brooks, an Irish beef and sheep farmer in Roscommon, would agree. Despite doubling the size of his farm, he is no better off. With big cuts in prices and export refunds to come, he fears for the future.

Unilever chief warns over Emu impact

By Lionel Barber in Brussels

The imminent launch of economic and monetary union will deliver a "juddering" shock to the European economy, Niall FitzGerald, chairman of Unilever, the Anglo-Dutch consumer products group, said yesterday.

He urged Europe's political leaders to "come clean" about the impact of Emu. The single currency would force companies to be more competitive, exposing protectionism and unproductive subsidies and forcing "long overdue" reforms in labour markets.

"The unspoken reality about Emu is that in every country, in every sector, in every community there will be winners and losers," he said in Brussels. "[But] we all believe that in the long run the winners will far outnumber the losers."

His remarks could be read as a criticism of European leaders such as Helmut Kohl, German chancellor, who have often stressed the euro's political importance at the expense of its economic impact. Mr FitzGerald said the lesson which Europe's leaders must learn is that "to impose from above without explanation and consultation and to ignore the fears and prejudices of individuals is not to accelerate progress but to endanger it".

However, he made clear he had little patience with the British government's decision to remain outside the first wave of countries joining the euro's launch on January 1, 1999. He hoped that Britain would join Emu "earlier rather than later".

In his speech – organised by the Confederation of British Industry, the UK employers federation – Mr FitzGerald declined to spell out which countries inside the future euro zone would benefit from the competitive shock of the single currency.

SPD opts for prudent stance

By Peter Norman in Bonn

The national executive of Germany's opposition Social Democratic party yesterday stressed financial prudence rather than free spending promises when it agreed the SPD manifesto for the German general election on September 27.

After the 45-strong executive approved the document, Gerhard Schröder, the party's candidate for chancellor, declared it was the SPD's most market-oriented election programme ever.

The SPD would fight the election to reduce unemployment on a platform of modernity and innovation paired with social responsibility, he said.

In spite of strong criticism from business associations, Mr Schröder confirmed the SPD was committed to repealing the government's 1996 supply side reforms that cut sick pay, trimmed widows' pensions and weakened job protection for employees of small businesses.

But he stressed that the rest of the programme was agreed on the strict understanding that the party would introduce reforms only if they could be financed.

But Mr Schröder insisted that the implementation of commitments would have to wait until an SPD-led government had carried out a post-election audit of Germany's federal finances.

The programme was immediately condemned by the Christian Democratic Union of Helmut Kohl, the chancellor.

Gerhard Schröder, party candidate for chancellor, left, with Oskar Lafontaine, chairman of the German opposition Social Democratic party, at a press conference yesterday Picture Reuters

Competition may cut cost of international euro moves

George Graham reports on how rival payments systems could make the ECB reduce transfer charges for large sums in euros

Preparing for Emu

Stiff competition from rival payment systems may push the future European Central Bank to cut the prices it charges banks to transfer large sums in euros from one country to another.

The European Monetary Institute in Frankfurt, the forerunner of the ECB, has suggested that payments through its Target payment system should be priced at E1.50-E3 ($1.66-$3.33).

But competing systems such as the Euro Banking Association's net settlement system now seem likely to charge less than had been previously expected.

The Bank of England, in its latest analysis of monetary union preparations published last week, said: "The ECB will need to consider what price will generate an economic level of traffic in Target and to assess whether the EMI's proposed E1.50-E3 range is still realistic."

The Target system will link each European country's high value payment system to the others, and European central bankers have been anxious that it should carry a large proportion of traffic in euros after the launch of the single currency next January.

This is partly because it will be easier to ensure the effects of ECB monetary policy feed through into all the euro-countries if Target carries large volumes of payments. But central bankers also believe that as a "real time gross settlement", or RTGS, system, it will improve the safety of the European financial system.

In an RTGS system, payments are credited instantly, and cannot be made unless the paying bank has money available on its account at the central bank.

By contrast, in net systems like the EBA, banks keep a running tally of the payments they make to each other and pay over the net balance at the end of the day. This means that a bank might conceivably go bust during the day owing large sums to its trading partners.

Central bankers around the world have been trying to steer more payments, especially in high volume sectors such as foreign exchange trading, towards RTGS, where these intraday debts cannot build up.

"Any RTGS system helps to minimise systemic risk," said John Townend, deputy director of the Bank of England in charge of Emu preparations. But banks will be unwilling to channel their payments into RTGS systems such as Target unless they work properly and are cost-effective.

The EBA, which had previously indicated that it was likely to charge E0.50-0.80 per transaction, is now expected to charge closer to E0.25.

Ashley Dowson of Barclays, who chaired the group which developed the EBA's euro system, says the association has now signed up 70 banks and expects to take 40-50 per cent of the euro payment market, compared with a forecast of 30 per cent a year ago.

Germany's net payment system, EAF2, is expected to charge a very similar price. It is not surprising that net systems should charge less. Banks are often willing to pay a premium for the certainty that a high value payment has arrived on time.

However, Target is also facing competition from national RTGS systems such as the UK's Chaps, which is developing a euro service, or Germany's EIL-ZV, which is now expected to charge just E0.25 per transaction. These national systems have been signing up new members from other countries, and could bypass Target altogether for many payments.

Transaction charges are only a small element of the cost of a payment. The most expensive element in cross-border transfers today is correcting errors in the two thirds of all payments which have account details wrong. RTGS systems also require banks to maintain cash balances or collateral at the central bank when they could be earning interest elsewhere.

"I am not convinced price is the key issue here. It's a question of volume capability and liquidity management. Target may be electronically sound but there is a question over how effective liquidity management will be in a decentralised system like Target," said Mr Dowson.

In the meantime, banks are watching nervously to see whether Target and all its national components will be ready for January 4 next year. "Some of the major central banks are not yet ready. There is no further room for slippage in the timetable," said Mr Townend of the Bank of England.

NEWS DIGEST

DIGITAL PAY-TV

German joint venture seeks Brussels clearance

The media companies Kirch Group and CLT-Ufa said yesterday they would seek further discussions with the European Commission in a bid to get clearance for their proposed German digital pay-tv joint venture.

Karel Van Miert, competition commissioner who is investigating the link-up, has expressed criticism of the project.

"There are obviously still differences of opinion. We will therefore conduct further discussions with Van Miert," said a spokesman for CLT-Ufa, the Luxembourg-based company in which the German media group Bertelsmann holds a 40 per cent stake. Kirch said it would consider the latest objections raised by the commissioner before giving an answer.

In an interview with the German magazine Der Spiegel, Mr Van Miert said the proposed merger of the two companies' pay-tv interests was unacceptable in its present form. He also said it seemed as though the companies had sought to hide from the commission plans to co-ordinate their pay-tv and free-tv interests. **Frederick Stüdemann, Berlin**

VATICAN'S WARTIME ROLE

Apology to Jews over 'failure'

The Vatican yesterday published a 14-page document that formally apologised for its failure to defend Jews against Nazi persecution during the second world war. However, the document, which has taken 10 years to draw up, defended Pope Pius XII against longstanding accusations that he turned a blind eye to the Holocaust.

The document, entitled "We remember, a reflection on the Shoah," referred to the massacre of at least 6m Jews as "an unspeakable tragedy" and said that Christians had a moral duty to ensure that such an event never happened again. Cardinal Edward Cassidy, head of the Vatican's Commission for Religious Relations with Jews, said the document was "more than an apology" to the Jews.

However, the document defended Pius XII against accusations that he did not do everything in his power to help the Jewish communities of Europe. "During and after the war, Jewish communities and Jewish leaders expressed their thanks for all that had been done for them, including what Pope Pius XII did personally or through his representatives to save hundreds of thousands of Jewish lives," the document said. **James Blitz, Rome**

BUSINESS OPINION

French survey 'bullish'

The Bank of France yesterday released a bullish survey of business opinion, with capacity utilisation in February at a seven-year high and a strong outlook over the coming months.

Industrial output in February was up in all sectors save food-processing. Domestic demand remained buoyant, and export order flows from the European Union and the US remained strong, though with slight signs of falling in Asia.

Order books rose in both capital and consumer goods sectors. The monthly survey said: "The outlook for the coming months is good and activity is expected to post rises in all sectors." Investment was being concentrated in enhancing productivity and in IT projects. Although jobs were being created, the bank observed that "firms continued to make frequent use of temporary staff in industry". **Robert Graham, Paris**

STAND-BY LOAN MISSION HIGHLIGHTS FAILURE TO MEET MACRO-ECONOMIC TARGETS

IMF withholds cash for Ukraine

By Charles Clover in Kiev

The International Monetary Fund is withholding the latest tranche of a $585m (£350m) stand-by loan to Ukraine, days before the country holds parliamentary elections, according to an IMF official.

The official added that discussions would resume in April, and Ukraine would be eligible to receive the loan if the IMF's terms were met.

An IMF mission which left Kiev on Saturday declared Ukraine ineligible to receive a $49m tranche of funds from its stand-by loan for the month of February. This was the second month in a row that a tranche had not been disbursed, and the IMF has now decided to suspend the loan, according to the official.

While other tranches of the 6-month-old stand-by loan have been delayed in the past, the problems facing the Ukrainian government now seem to be mounting in scope. Ukraine's parliamentary elections are scheduled for March 29 and opposition parties have been gaining ground.

The IMF decision was triggered partly by Ukraine's failure to meet macro-economic targets specified for the end of January and the end of February. Ukraine exceeded a limit on growth in wage and pension arrears, and net international reserves fell below a specified, but undisclosed floor. The reserve target had been revised to give Ukraine more leeway in late January.

The IMF was also dissatisfied with Ukraine's plans to reduce government expenditure, as well as its failure to deregulate its dormant market for domestic Treasury bills.

After the Asian crisis and a subsequent loss of investor confidence, the Ukrainian central bank has had to buy more than 800m hryvnia ($400m) of Treasury-Bills since January 1. Its reserves have fallen by more than $450m.

The exchange rate on the hryvnia has fallen by 6 per cent since the beginning of the year.

The parliamentary elections have put pressure on the government to settle outstanding wage and pension arrears, a move which could further drain public resources.

The IMF monthly tranches themselves are not large enough to be significant in the equation, but the IMF stand-by agreement works as a trip-wire for larger sources of finance from the World Bank and international capital markets.

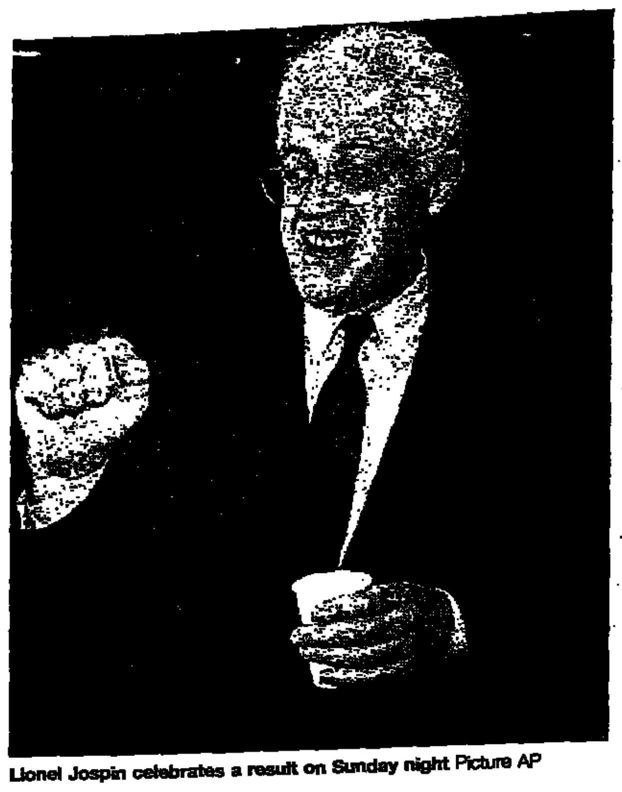
Votes offer two cheers for French Socialists

An air of mild disappointment was evident yesterday within the ranks of France's ruling Socialist-led coalition as party strategists assessed the results of Sunday's regional elections.

The vote for the main parties in government – Socialists, Communists and Greens – was just over 35 per cent, a good five points below the support that polls had indicated for electing the administrations of the 22 home and four overseas regions.

But the disappointment was self-inflicted because too much had been expected from poll forecasts. In fact, the outcome of this first countrywide electoral test of Lionel Jospin's government was more than satisfactory.

The public sentiment behind the defeat of the moderate rightwing parties last year has been confirmed, and at last the left will hold a more balanced share of power at the regional level.



Lionel Jospin celebrates a result on Sunday night Picture AP

Having won a mere two home regions in 1992, the ruling left-wing parties have now gained one region outright and hold the relative majority in nine, including the politically symbolic Paris region of Ile-de-France. In two others, votes were so close as to produce near ties.

In spite of many areas of potential conflict on policy issues, the ruling parties campaigned together and presented a reasonably homogenous front. As a result Mr Jospin, the prime minister, should have more authority in handling his coalition. He will also be able to co-opt his partners in the distribution of regional prizes.

But Mr Jospin also received a warning in both the surprisingly strong showing of a hard-left protest vote and in the exceptional 42 per cent abstention rate. The hard left, probably more evident in this type of election, picked up more than 4 per cent of the vote (notably Lutte ouvrière party).

These are the people who have been the biggest thorn in the government's side on issues such as jobs and welfare spending. At the same time if the near 5 per cent of spoiled ballot papers is added to the abstentions, it reveals that almost half the country turned its back on the elections.

The moderate right-wing parties, the Gaullist RPR and the centrist UDF, achieved a slightly better result than the gloomy outcome predicted by the opinion polls.

They have been comforted by gaining 31 per cent of the vote, avoiding a rout in the regions. But this has merely shown the basic strength of their core support, not an ability to forge a cohesive pact to win the political middle ground or undermine the platform of the hard-right National Front.

Jean-Marie Le Pen's National Front improved marginally on its general election performance, gaining almost 16 per cent of the vote nationwide and much more in local strongholds such as southern France.

The RPR and UDF refused during the campaign to entertain alliances with the Front to govern the regions. Hard bargaining is now likely as the moderate right is tempted to strike deals to retain control of the regions.

None of this comes closer to resolving the profound divisions and personality clashes within the opposition that allow the Jospin government such a wide margin of manoeuvre.

The biggest disappointment about Sunday's election was the failure by all the parties to explain their visions of the regions' role as Europe moves towards monetary union.

The regions were introduced in 1982 as a link between Paris on the one hand and the departments and municipalities on the other in an effort to decentralise Europe's most highly centralised state.

But they have tended to be an excuse for more pork-barrel politics rather than a useful means of co-ordinating regional economic development. Mr Jospin now has the chance to set a new regional agenda.

Robert Graham

Santer calls for summit on work consultation

By Michael Smith in Brussels

Jacques Santer, president of the European Commission, called yesterday for a summit with Europe's employers and workers after private-sector representatives rejected an invitation to negotiate arrangements which would require them to consult more widely with employees.

The rejection of talks was a serious setback for arrangements set up in the 1992 Maastricht treaty to encourage employers and unions to agree EU-wide frameworks for consultation, said Mr Santer. "It gives the wrong impression of what joint action at European level is all about."

Padraig Flynn, EU employment commissioner, said he would bring forward proposals for a directive "in order to ensure that basic rules for information and consultation of workers are established throughout the EU".

UNICE, an organisation representing private-sector employers, said its members were virtually unanimous that the EU should not interfere with the information and consultation arrangements in national companies operating in one country.

By refusing to negotiate with unions, UNICE risks a directive more onerous on employers. However, Mr Flynn may have difficulty persuading member states to back his proposals.

Tony Blair, UK premier, opposes EU-wide measures and a government spokesman said yesterday that the UK was not convinced of the need for legislation. Germany is thought to be wary.

UNICE's consultation stance marks the third time it has rejected negotiations on an issue with unions since the Maastricht treaty introduced "social protocol" arrangements as an alternative to the commission proposing legislation.

Under the protocol arrangements, EU countries must accept a deal in full or reject it. UNICE has refused to negotiate two proposed protocol deals related to sexual harassment but has agreed arrangements for parental leave and part-time work and is discussing fixed-term contracts.

Mr Santer said while workers and employers had to continue talking to each other, the "mini summit" he wanted was not to discuss the consultation blockage but to allow employers, unions and the commission to debate social dialogue.

German private banks' EU plea

By Andrew Fisher in Frankfurt

Germany's private sector banks returned to the offensive yesterday over the competitive advantages they say are enjoyed by their public sector rivals.

The German private sector banking association criticised the government for presenting "an inaccurate picture" of competition in German banking. It also said restructuring of public sector banks risked breaching free market principles.

Martin Kohlhaussen, association president and head of Commerzbank, said he had written to Karel Van Miert, European Union competition commissioner, outlining the competitive distortions that private sector banks say arise from public sector banks' guarantee status.

He said this status provided public sector banks with "a considerable competitive advantage" by making it virtually impossible for them to go bankrupt. This was supposed to be in return for services provided in the public interest, but Mr Kohlhaussen said this was not always the case.

The European Commission is already investigating a complaint by the association that Westdeutsche Landesbank, Germany's biggest public sector bank, received unlawful state aid through the integration of housing development funds.

It is also studying the wider issue of competition between private and public sector banks to see how far competitive privileges – enabling public sector banks to obtain top credit ratings and borrow at favourable terms – are justified.

Ireland and Greece: ERM central exchange rates

Bilateral central rates, intervention limits

		100 BFr/LFr	100 D Krone	100 French franc	100 D-Mark	1 Irish punt	100 Guilder	100 Escudo	100 Peseta	100 Schilling	100 Markka	1000 Lira	100 Drachmas	1 Ecu
Irish punt	S	2.28798	12.2583	13.9416	46.7595	–	41.4980	0.458154	0.549832	6.64692	15.3816	0.472384	0.258969	–
	C	1.95232	10.5067	12.0063	40.2676	–	35.7382	0.392834	0.473335	5.72347	13.2458	0.406743	0.223833	0.796244
	B	1.68131	9.09132	10.3397	34.6776	–	30.7774	0.338394	0.407631	4.92900	11.4072	0.350281	0.192077	–
Drachma	S	1816.43	5496.05	6250.80	20964.3	520.624	18606.2	204.520	246.429	2978.78	6896.13	211.770	–	–
	C	875.34	4733.13	5383.11	18054.2	448.365	16023.4	176.129	212.222	2568.16	5938.88	182.365	–	357.000
	B	763.83	4076.11	4635.98	15547.2	386.117	13790.1	151.681	182.763	2208.94	5114.47	157.060	–	

S = Exchange rate at which the central bank of the country in the left hand column will sell the currency identified in the top row
C = Bilateral central rate and ECU 1 = ECU central rate
B = Exchange rate at which the central bank of the country in the left hand column will buy the currency identified in the row at the top of the table

On Thursday March 19 1998 The Financial Times will be publishing a comprehensive table of ERM central rates and intervention limits

Source: Bank of England

WORLD TRADE

UPS sets up rail service in Germany

By Charles Batchelor, Transport Correspondent

UPS, the US express parcels group, has teamed up with the German post office to launch a rail-based parcels network because it thinks Deutsche Bahn, the German train operator, is not providing a good enough service.

The two companies have set up a joint venture called Express Shuttle to start moving parcels by rail throughout Germany from the end of 1999. They may later develop services to Italy and Denmark.

At present UPS moves only 4 per cent of its 130m packages and documents which originate in Germany annually by Deutsche Bahn because of the railways' inflexible scheduling. Rail terminals are closed at weekends so UPS cannot load wagons for an early start on Monday.

By contrast, 29 per cent of its ground shipments in the US are by rail. UPS believes it can increase rail shipments in Germany sixfold. "We can't manage faster transit times on rail because no one rail company enables us to sort late enough to meet customers' delivery times for the next morning," said Ronald Mauck, UPS rail services manager.

He added that Deutsche Bahn was proving slow in negotiating access for Express Shuttle's trains.

UPS and the post office believe that by acting together, they can change the way the railways do business. The organisations, which both move parcels, had to overcome their initial reluctance to work with a competitor, said Mr Mauck.

Express Shuttle will charge the same rate for rail and road delivery. UPS said the aim was not to reduce costs but to maintain service quality in the light of increasing congestion.

The two partners will invest DM900,000 ($506,000) up to September, researching train design and deciding on the network.

CHINESE TRADE ATTEMPT TO COUNTER SQUEEZE CAUSED BY ASIAN ECONOMIC CRISIS

Beijing plans to boost export loans

By James Harding in Beijing

China's Eximbank plans to increase loans to exporters by up to 60 per cent in an attempt to boost exports which might otherwise be squeezed by the economic upheaval in Asia.

The Export and Import Bank of China (Eximbank) plans to grant Yn24.3bn ($2.9bn) in loans to Chinese exporters. Officials hope the money will enhance the competitiveness of Chinese companies selling overseas and help expand the markets for Chinese exports.

China has promised repeatedly it will not devalue its currency, despite pressure on exporters of cheaper competition from manufacturers in other Asian countries where currencies have lost some of their value. The pledge of more loans to exporters is an alternative means of helping Chinese companies compete in international markets.

A report in the government-owned China Daily said yesterday the Eximbank loans would "play an active role in enhancing Chinese companies' competitiveness, diversifying the markets of Chinese exports and expanding the export value of machinery and electronic products as well as complete sets of equipment". To date, China's Eximbank has granted export sellers credit of over Yn40bn.

Initial trade figures for 1998 suggest the Asian financial crisis has already started taking its toll on China's exporters. China's exports in January were worth US$12.65bn, up 8.8 per cent from the same month last year, against a rise of 20.9 per cent for the corresponding period in the previous year.

The report said "sluggish growth" in Chinese exports was expected this year. Exporting volume had slowed significantly in January, when it had been "greatly affected" by the currency devaluations in Thailand, the Philippines, South Korea and other south-east Asian nations.

An Eximbank official said loans would be made to a full range of Chinese businesses, not only state-owned enterprises, but collectively-owned companies and foreign-funded enterprises in which Chinese partners hold a controlling stake.

Eximbank, set up in 1994 to finance China's exports of value-added capital goods, will give priority to profitable companies selling machinery and electronic goods, the report said. These are seen as having strong market potential.

To promote export of Chinese capital goods, the Eximbank will try to provide loans to machinery and electronic manufacturers setting up factories overseas, or offer financial support to overseas projects contracted by Chinese companies. Machinery and electronic products are one of China's largest export categories.

Mexico calls on Nafta over US sugar dispute

By Henry Tricks in Mexico City

A row between Mexico and the US over sugar is proving a severe test for the four-year-old North American Free Trade Agreement.

Mexico has taken the unusual step of calling for consultations on sugar under an intergovernmental dispute settlement mechanism contained in Nafta.

Mexico took the action after formal talks with the US were abandoned last week because the two countries failed to settle differences over the way they viewed the treaty's sugar covenants.

Mexico's call for consultation was also prompted by the US Trade Representative's Office decision last Thursday not to include Mexico in a long list of countries entitled to export extra sugar this year to the lucrative US market.

Peter Scher, the US Trade Representative's ambassador for agriculture, said Mexico was left off the list because in January it ratified anti-dumping duties on imports of US high fructose corn syrup (HFCS), widely used in soft drinks as a low-cost sugar substitute.

Mr Scher said Mexico's action raised "serious concerns" in Washington. "The strategy of imposing barriers and other restrictions to US imports of HFCS is unacceptable," he said. "Furthermore, it undercuts any interest in trying to be responsive to Mexico's desire for greater access to the US market."

Washington is considering taking the HFCS case to the World Trade Organisation. US corn syrup producers say they may also invoke US law to force the US Trade Representative to investigate alleged trade discrimination in Mexico.

'The strategy of imposing barriers and other restrictions to US imports of high fructose corn syrup is unacceptable'

The rancorous exchanges between the US and Mexico are partly fuelled by the political power of sugar lobbies in both countries in the run-up to the free bilateral trade in sugar in 2009.

In addition, an incident during Nafta negotiations in 1993 has given rise to profound differences in interpretations of the sugar treaty.

Mexican sugar industry officials say that as the deadline approached for the US Congress vote on Nafta in late 1993, congressmen from southern sugar producing states sought last-minute changes in the agreement. Fearing rejection of the entire treaty, the Mexican government agreed to the changes via an exchange of "secret letters".

Herminio Blanco, Mexico's trade minister and former chief Nafta negotiator, drew public attention to the letters last week in announcing the move to arbitration.

He said Mexico would aim in the Nafta consultations to clear up doubts which remained after the exchange of letters, as well as addressing Mexico's access to the US sugar market in 2001.

Part of the confusion is over technical definitions: does sugar simply mean sugar, or does the treaty also include sweeteners, such as corn syrup?

According to Mexico, the Nafta text also suggests Mexico could have limitless duty-free access to the US market, under certain conditions, from 2001 onwards. But according to the US interpretation, duty-free exports will be limited to 250,000 tons a year from 2001 to 2009.

Airline alliance verdicts soon

By Emma Tucker in Brussels

European Union antitrust regulators have almost completed their recommendations on three transatlantic airline alliances but are unlikely to reveal their verdicts before mid-April.

Senior European Commission officials have confirmed that most of the elements are in place for decisions on the alliances between British Airways and American Airlines; Sabena, Swissair and Delta; and Lufthansa and United Airlines.

A decision on the controversial BA-AA alliance is understood to have been reached, but the officials said delays with the inquiry into the Sabena, Swissair and Delta alliance would postpone a formal decision for another few weeks. The Commission is keen to unveil its recommendations on all three alliances simultaneously.

"The way to get a decision on BA-AA has been clear for some time," said an EU diplomat. "It was a question for BA-AA whether they wanted to risk going first or wait until the Commission was ready with the others."

Unlike the other alliances, BA-AA will face further delays. It has not yet been granted antitrust immunity from the US authorities, who are expected to issue their opinion after the summer.

BA is understood to be working on the assumption the alliance will not start operating before spring next year, provided all the regulatory hurdles are overcome.

The lengthy antitrust inquiries are expected to conclude that substantial changes to the alliances must be made to preserve competition on transatlantic routes. The inquiries are likely to demand the European airlines cede slots at their main hub airports and reduce frequencies on certain routes.

The most contentious issue has been the Commission's demand that BA relinquish up to 350 valuable take-off and landing slots at London's Heathrow airport, a demand rejected as excessive by BA.

Once published, the recommendations will be open to comment for four weeks, then sent to national competition authorities.

The national authorities could technically reject the Commission's conclusions, but are unlikely to do so. Germany's cartel office has indicated to Brussels it agrees with the stance taken on the Lufthansa-United deal.

NEWS DIGEST

THAI EXPORTS

US Eximbank to provide $1bn trade financing

The US Export-Import Bank will provide $1bn in trade financing to Thailand, primarily to help Thai exporters import raw materials they need for production. The promise was one of a number of pledges made by the US to Chuan Leekpai, Thai prime minister, during his visit to Washington, which ended at the weekend. The US commitments were a reward for recent economic reforms in Thailand, which has recently arranged trade financing of $1bn from a consortium of private banks and the Asian Development Bank and $600m from the Japanese Export-Import Bank.

The US will allow the Thai air force, strapped for hard currency as a result of the country's economic crisis, to cancel a 1996 deal to buy eight F-18 jet fighters for $392m. The US will take back the planes and Thailand will lose its $74m deposit but not pay a $250m penalty fee for cancellation. **Ted Bardacke, Bangkok**

SHRIMP IMPORTS DISPUTE

US to challenge turtle ruling

The US is to will appeal against a World Trade Organisation interim ruling that the US violated fair trade rules by imposing a ban on shrimp imports to protect endangered sea turtles. The ruling by a WTO panel, still officially confidential, is certain to anger environmental groups which regard the body as antipathetic to conservation interests. Thailand, Malaysia, India and Pakistan argued that the US was acting unfairly by banning imports of shrimps caught in nets without devices to exclude turtles, which US fishing boats are required to use. Environmentalists have argued that 150,000 turtles drown in fishing nets each year. **Frances Williams, Geneva**

EU-US FARM TRADE

Deal closer on hygiene rules

European farm ministers last night agreed a "veterinary equivalency" deal with the US aimed at facilitating trade in animals and animal products. Agreement is expected to ease friction between Washington and Brussels over farm trade and provide a framework to allow the EU and US to recognise each other's hygiene inspection rules. Trade of meat and meat products between the US and the EU is worth $3bn a year.

The US veterinary deal is one of a series planned by the EU with trading partners. Separately, farm ministers were due to start talks last night on plans by the European Commission to delay implementation of a ban on so-called "specified risk material" in cattle. **Michael Smith, Brussels**

IRANIAN OIL

Tehran woos foreign investors

A senior Iranian oil official yesterday revealed a string of oil and gas projects to be opened up to foreign investors despite US trade sanctions on companies which invest in Iran's oil and gas sector. Mahmoud Mohaddes, exploration chief at the state-owned National Iranian Oil Company (NIOC), told a petroleum conference attended by US and other western executives that Iran was fully opening its doors to foreign investment in its vital oil and gas fields. Mr Mohaddes spoke of more than 100 different prospects across Iran that were "wide-open" to foreign development. **Reuters, Dubai**

Cook to visit Har Homa in defiance of Israeli protests

By David Buchan in Cairo and Judy Dempsey in Jerusalem

Robin Cook, Britain's foreign secretary, yesterday defied Israeli protests and insisted on visiting a controversial Jewish settlement in Arab east Jerusalem as part of his Middle East peace-brokering effort on behalf of the European Union.

Israel warned of a "crisis" if he went ahead with the visit and senior Israeli officials said the EU would have to adopt a more "balanced" approach towards Israel if it wanted to play any constructive role. They believe the EU is "pro-Palestinian".

Mr Cook, backed by last weekend's informal meeting of EU foreign ministers in Edinburgh, had intended to visit Har Homa with Faisal Husseini, the Palestinian Authority's minister for Jerusalem affairs.

But following Israeli pressure, Mr Cook agreed to go to the settlement without Mr Husseini. He will meet him instead in an east Jerusalem school. Nevertheless, Israel remains dissatisfied. "If he [Mr Cook] rejects our appeal [not to visit Har Homa] it will be a crisis that will impact on the visit," said a senior Israeli official.

Despite pledges by Benjamin Netanyahu, the Israeli prime minister, that he wanted to improve relations with Europe, comments by Israeli officials have had the opposite effect.

David Bar-Illan, Mr Netanyahu's media adviser, said a visit by Mr Cook to Har Homa with Mr Husseini was the equivalent of Mr Netanyahu visiting London and meeting Gerry Adams, leader of Sinn Fein, the political wing of the Irish Republican Army.

Mr Cook said "the position we take on the expansion of settlements is one that is long standing and is known to the Israeli government. Not just Britain, but all countries of the European Union have long opposed expansion of the settlements in occupied areas." In this, Europe was "fully shoulder to shoulder with the US, and has repeatedly called for a "time out" in the expansion of settlements".

Whatever the outcome, the incident reflects growing EU frustration on how, if at all, it can help revive the peace process. "We want to be involved. We have to take a stand on settlements which are illegal. But there is little consensus on how to proceed," an official said. Last month, the EU could not even agree to make public a report on settlement building.

EU officials believe they should have a greater say for several reasons. Apart from being Israel's largest trading partner, it is the biggest donor to the Palestinian Authority, having allocated nearly $2bn of aid since 1994. They said such aid has propped up the Palestinian economy – and subsidised Israeli closures on the West Bank and Gaza.

The Israelis, not surprisingly, welcome such aid but accuse the EU of playing down Israel's security needs and the fight against terrorism. The EU's response is that it has invested Ecu8m ($8.8m) in training Palestinian police in counter-terrorism. "We are not ignoring the security issue. Israel knows this," added the official.

In recent months, the EU has made small headway in trying to carve out a role. It meets with Israel regularly in five committees dealing with the Gaza air and seaport, Palestinian labour, passage of goods and people between the West Bank and Gaza and the fiscal and financial sectors.

But EU officials admit they have neither sufficient staff on the ground to deal with these issues. Nor do they know whom to believe, for example, which side is holding up the opening of Gaza airport – a key issue for the EU – since it is not involved in any of the bilateral meetings between Israel and the Palestinians.

Israel tells the EU the Palestinians are blocking it, fearing it would present Mr Netanyahu in a bad light. The EU suspects Israel, still holding out on security arrangements, would use the operation of the airport to put off even further Israeli troop redeployments from the West Bank.

"Sometimes we feel we are running round in circles," said another EU official. "Involvement by the EU in the bilateral negotiations between Israel and the Palestinians would clarify so many issues."

Such involvement would provide a "third pair of eyes", something which Israel said it would not allow. "The US sits in on the security meetings. But then, unlike the EU, we consider the US an honest broker," an Israeli official said, giving little reason to believe Mr Cook will be able to persuade his hosts otherwise.

Mr Cook yesterday stressed Britain's impartiality. "I wholly reject any suggestion that we are coming here in any spirit of hostility. Britain has been a long-standing friend of the Israeli people."

Amr Moussa, the Egyptian Foreign Minister, confirmed Egypt's "absolute" support for Mr Cook's visit to Har Homa.


Robin Cook in Cairo yesterday with Egyptian foreign minister Amr Moussa who gave his backing for the visit to the controversial Jerusalem settlement Picture Reuters

Kuwait cabinet quits in crisis over Islamists

Sheikh Jaber al-Ahmad al-Sabah, Kuwait's Emir, yesterday accepted the government's resignation, reappointed the prime minister and asked him to form a new cabinet, Reuters reports from Kuwait City.

The 15-man cabinet resigned on Sunday to avoid a showdown in parliament today, in a no-confidence vote against Sheikh Saud Nasser al-Sabah, information minister and member of the ruling family.

Backers of the no-confidence motion say they secured more than the 24 votes needed to dismiss the minister in a crisis between the government and Islamists over the display of banned books, which Islamists see as un-Islamic. The current cabinet, formed in October 1996 after general elections, will continue as a caretaker government. Some observers expect Sheikh Saad to include Sheikh Saud in the new cabinet, but at a different ministry.

Others say such a move could further anger parliamentarians. They argue that with an apparent majority in parliament against him, Sheikh Saud should not be given a new portfolio.

Sheikh Saud, who was ambassador to Washington from 1981-1992, was first appointed information minister in October 1992, some 20 months after the 1991 Gulf war.

Diplomats and political observers say Sheikh Saad may appoint a new finance minister in place of Nasser al-Rodhan, also a deputy premier, who offered his resignation last November but was kept in place.

Mr al-Rodhan, who is also in charge of Kuwait's foreign investments, valued at over $45bn, last year survived the threat of a no-confidence motion over alleged corruption at state institutions under his authority.

His opponents failed to win the 10 votes needed from among the 46 MPs to put forward a no-confidence motion. Issa al-Mazidi, oil minister, refused any comment on his future when contacted on Sunday. Kuwait controls about 10 per cent of world proven oil reserves, with a daily oil output quota set by the Organisation of Petroleum Exporting Countries of 2.19m barrels.

NEWS DIGEST

SIERRA LEONE EMBARGO

UN vote to end oil ban but travel bar stays

The United Nations Security Council yesterday voted unanimously to lift an oil embargo on Sierra Leone, following the return of Ahmed Tejan Kabbah, the elected president ousted last May by a military junta.

The council left in force an arms embargo and a ban on travel by high-ranking members of the former military regime. Britain, which introduced the resolution following a request from Sierra Leone, yesterday hailed the "good news" as another step toward restoring the democratically elected government.

Kofi Annan, UN secretary-general, will later this week make recommendations to the Council on the deployment of a token UN force to Sierra Leone to help the West African peacekeeping force, known as Ecomog, restore stability to the country. A UN presence could enhance the Nigerian-led Ecomog's authority. The despatch of a UN force comes against a background of complaints that Ecomog attacked and unseated the junta without the explicit go-ahead of the Council. **Laura Silber, New York**

VATICAN DOCUMENT

Israelis 'disappointed'

Israelis voiced disappointment at a Vatican document yesterday which they said failed to account for the role of Catholic teachings in spawning the Nazi Holocaust during the second world war. Holocaust scholars were generally disappointed with the 14-page statement which decried the genocide as an "unspeakable tragedy" but absolved Pope Pius XII of accusations that he turned a blind eye.

Cardinal Edward Cassidy, head of the Vatican Commission for Religious Relations with Jews, said at a Vatican news conference that the 14-page document was an apology and an act of repentance for members of the church who failed to save Jews.

In an introduction to the document, Pope John Paul said the Holocaust would remain an "indelible stain" on the 20th century and urged Christians to "examine themselves for the responsibility they too have for the evils of our time".

The Pope did not mention Pope Pius XII in his introduction. However, the document clearly defended him against accusations by some Jews that he had not done everything in his power to help them. **Reuters, Jerusalem**

SPYING CHARGES

Iran arrests Kurds

Iranian security forces have arrested several members of an Iraqi Kurdish faction opposed to Tehran on charges of spying for Israel and Turkey, a newspaper said yesterday.

The daily Jomhuri Eslami quoted an security official as saying those arrested included a high-ranking member of the Kurdistan Democratic party (KDP) based in Iran.

"All those arrested have confessed to spying for Turkey and the Zionist regime (Israel)," the official said. He did not say how many people were held.

Iran has often sided with the Patriotic Union of Kurdistan (PUK), the KDP's main rival, in their conflict in northern Iraq. The PUK and the KDP, which has received backing from Turkey and Iraq, have been fighting a sporadic war since 1994, when a joint administration of the area collapsed.

Iran has expressed concern over military co-operation between Turkey and Israel, saying Israel was trying to increase its influence in the region with Ankara's help. **Reuters, Tehran**

UN reformer looks for new friends in world of business

Laura Silber explains why Kofi Annan is turning to the private sector in his campaign to repair the UN's tarnished image

Kofi Annan, the American business school-educated United Nations secretary general, has a new mantra – a strong UN is good for business.

Since taking office a year ago Mr Annan has applied the principles learned at the Massachusetts Institute of Technology to his new job, and is seeking to forge closer ties between the UN and private business.

He believes opening up the UN to business and other non-government sectors of society will help the world body repair its tarnished image.

As part of this campaign, the secretary general next month will address business leaders in San Francisco and meet film industry heavyweights in Los Angeles.

Mr Annan believes both sides will benefit from a partnership. "Development and peace are essential for trade and investment to occur and for business to grow.

"At the same time, thriving markets are a precondition for creating jobs, improving standards of living, spreading more widely the benefits of globalisation and integrating developing countries in to the world economy," the UN said last month when inaugurating the new partnership at a meeting at UN headquarters with the International Chamber of Commerce. The 25 companies represented included Alcatel Alsthom, BAT industries, Coca Cola, McDonald's and Unilever.

'Thriving markets and human security go hand in hand'

This pitch marks a complete turnaround for the UN. In the cold war world it would have been anathema. Then, the UN walked a tightrope between capitalism and communism, anxious to avoid offending either superpower.

Mr Annan recently told the World Economic Forum in Davos, "The United Nations once dealt only with governments. By now, we know that peace and prosperity cannot be achieved without partnerships involving governments, international organisations, the business community and civil society."

Georg Kell, a UN economist helping design the new approach, says it reflects a historic change in the evolution of the UN. Indeed, some of the 132 countries in the so-called Group of 77 plus China, which grew out of the non-aligned movement, remain opposed to any embrace of the private sector or civil society, in the conviction that it threatens UN principles of neutrality.

Despite these complaints, Mr Kell, a German, believes the UN has little choice but to court the private sector. "The UN will move towards marginalisation unless it opens up to the real world," he says.

He points out that the UN is spearheading the integration of countries into the global economy and hopes to make poorer countries more attractive for business.

Business, say UN officials, also has an interest in UN efforts to establish a regulatory framework for globalisation in areas such as technical standard-setting, aviation, shipping and telecommunications.

Mr Annan believes that business has a stake in the UN's success. In a Davos speech to business leaders, he said: "Business has a compelling interest in the success of this work. Creating wealth, which is your expertise, and promoting security, the UN's main concern, are mutually reinforcing goals. Thriving markets and human security go hand-in-hand.

"A world of hunger, poverty and injustice is one in which markets, peace and freedom will never take root."

UN officials involved in the process dismiss the notion that many businesses might not operate on these high-minded principles. "If the companies have a vision for their future. They share these principles," says a senior aide.

This pro-business message, and Mr Annan's success in clinching an agreement with Iraq to win access to suspected weapons sites, could bolster the UN's position in the US, which owes the UN $1.3bn in outstanding dues.

American conservatives have long complained that the UN was an obstacle to free trade, by promoting country-based development programmes and state regulatory mechanisms.

But Mr Annan last month received a boost when the Washington Post and the New York Times both carried open letters from American business and political leaders calling on Washington to pay its dues to the UN.

Delegates deal blow to Li Peng

By James Kynge in Beijing

China's parliament displayed rare adversarial reflexes yesterday as more than 10 per cent of delegates refused to endorse outgoing premier Li Peng in his new job as chairman of the legislature.

Top officials, all of whom run unopposed, are usually elected with minimal opposition by the National People's Congress, which is often regarded as a "rubber stamp" for Communist party directives. But out of a total of 2,616 delegates in Beijing's Great Hall of the People yesterday, 200 voted against Mr Li and 126 abstained. Commentators said that the result was a blow to the prestige of Mr Li, premier for the past decade. The dissent marks an inauspicious start to his five-year term as NPC chairman.

The concern among many in Beijing is that Mr Li, 69, may adopt a more conservative approach towards modernising the NPC and China's legal system than his predecessor, Qiao Shi, who is retiring.

Senior officials at the NPC this year have criticised the long delays in the drafting of several important economic laws, such as the securities law to regulate the country's two existing stock markets, and a futures trading law.

But in spite of the delays, the quality of China's law drafting process has undoubtedly improved under Mr Qiao's tenure, during which time a wider spectrum of people – including reformist academics – have been allowed to participate.

Mr Li, however, is not noted for his reforming zeal or democratic principles. He is held responsible for the military crackdown on protesters in Beijing in 1989.

His rise to the chair of the NPC comes at a crucial time. Many politicians and academics are advocating that the "rule of law" should replace the current "rule of man", which is criticised as subjective and often corrupt.

"It is probably counter-intuitive for Li Peng to allow a flowering of debate (in law drafting). But he may have to be more flexible than in the past, if only to avoid alienating his new constituency," said one diplomat.

Mr Li, who retains his position as second in the Communist party leadership, is expected to be formally replaced today as premier by Zhu Rongji, the vice-premier in charge of the economy.

Jiang Zemin, president, was returned yesterday as head of state with only 36 delegates voting against and 29 abstaining.

A rising star, Hu Jintao, was elected to the post of vice-president, positioning him as a possible successor to Mr Jiang. At 55, Mr Hu is the youngest member of the seven-man politburo standing committee. He is best known for his tenure as Communist party secretary in Tibet during which time the army suppressed several separatist protests.

Downturn fuels HK jobless rate

By John Ridding in Hong Kong

Hong Kong's unemployment rate jumped in the three months to the end of February, climbing to 2.9 per cent from 2.5 per cent in the quarter to the end of January, according to government statistics released yesterday.

The rise marked the impact of Asia's financial crisis, which has prompted a sharp downturn in Hong Kong's economy. High interest rates, falling property prices and a slump in retail and tourism have prompted a wave of job cuts, while economists predict continued increases in the numbers out of work.

"We expected to see a sharp increase in the first few months of the year after the first impact of the crisis," said Joseph Lau, economist at Credit Suisse First Boston. "The unemployment rate might steady before increasing again, but we expect another jump later in the year," he added, predicting a jobless rate of about 4 per cent by the end of 1998.

While it is customary for employers to adjust their workforce after the lunar New Year holiday, the change this year was amplified by the regional crisis.

The under-employment rate also rose, but less sharply, increasing from 1.5 per cent to 1.6 per cent.

Although the unemployment rate in Hong Kong is relatively low by international standards, the territory has a less supportive welfare system than most developed economies. A government spokesman said yesterday that the unemployed will be assisted in attempts to return to work through training and education schemes.

The government added that its public expenditure programme will increase job opportunities in housing and infrastructure, while the tax cuts announced in last month's budget should also help revive consumer spending. A combination of fiscal measures will reduce taxes by almost HK$100bn ($12.9bn) over the next four years, while the budget also introduced tax relief on mortgages.

Economists warn that the broader impact of rising unemployment could be more severe than in previous downturns since professional classes are being affected. "There have never been so many unemployed professionals and middle-ranking managers in Hong Kong," says CSFB. "Only the top 20 per cent of households ranked by income can afford to buy flats on the private market, so the impact on the property market will be more serious."

Among the high-profile casualties of the downturn have been Cathay Pacific, the territory's de facto flag carrier, which announced 760 job cuts in January. Several investment banks and retailers have also announced redundancies in response to the downturn.

Suharto's old friend takes up portfolio

By Sander Thoenes in Jakarta

Old times' sake: a photo of Bob Hasan (left) and President Suharto on a fishing trip

A photograph prominently displayed in the headquarters of the Kalimanis timber conglomerate underscores what most Indonesians know already about power and influence in their country. The picture – of President Suharto, Sylvester Stallone, the American actor, and Bob Hasan, president of Kalimanis, on a fishing trip – is just another reminder that friends matter.

Yesterday Mr Hasan, 66, was sworn in as minister of trade and industry in Mr Suharto's government.

Indeed, Mr Hasan, who is often pictured in local newspapers playing golf with the president, personifies the close links between business and government in Indonesia. But such links "significantly raise the cost of doing business in Indonesia, lower efficiency, undermine international competitiveness and contribute to inequity," according to a World Bank report published last year.

Mr Hasan and Mr Suharto's friendship goes back a long way. In the 1950s Mr Hasan, the son of a Chinese cigarette trader and godson of a famous general, supplied the then Colonel Suharto in Yogyakarta with provisions and appealed to his godfather to further his friend's career.

In return, Mr Suharto helped Mr Hasan obtain forestry concessions in the 1970s and expand into steel, mining, insurance and shipping. State banks gave him credits last year when commercial banks balked at funding a $1.3bn pulp mill.

Mr Hasan resigned as president commissioner of Kalimanis to become a minister but kept a stake of more than 75 per cent in the company. He remains chairman of Nusantara Ampera Bakti, or Nusamba, an investment company that was ranked as Indonesia's 11th largest conglomerate. Nusamba is 80 per cent owned by three charitable foundations chaired by Mr Suharto and funded by industry levies and donations. The president's eldest son, Sigit Harjojudanto, and Mr Hasan hold 10 per cent each.

It was in his capacity as chairman of Apkindo, the association of Indonesia's plywood producers, that Mr Hasan most recently attracted attention. The International Monetary Fund made disbandment of what it called "the plywood cartel" a condition of its $43bn rescue package when Indonesia's financial crisis led it to seek help last year.

The World Bank said Apkindo's practices encouraged the pillaging of Indonesia's vanishing rain forests. Membership of Apkindo was obligatory for the country's 111 plywood producers. The association set their export quota, allotted shipments and was closely allied with the forestry ministry that awarded their licences. In 1996 Apkindo pulled the licence of one company for selling plywood below its floor price. While he was chairman of Apkindo, Mr Hasan offered members the services of his insurance company, shipping agent and trading offices abroad.

In spite of some resistance by Apkindo, Mr Suharto confirmed the cartel was dead after he signed the IMF agreement in January.

Meanwhile, Kalimanis, worth more than $3bn before Indonesia's currency, the rupiah, collapsed, is plagued by debt and malfunctions at the new pulp mill. Last year it laid off 2,500 people. The new post may also be a compensation for the loss of Apkindo, observers say.

Mr Hasan's predecessor as trade and industry minister tried to follow IMF recommendations for deregulating trade and dismantling monopolies, but IMF officials who visit Jakarta this week will find many, including Mr Hasan's monopoly on newsprint, are alive and kicking.

Mr Hasan made no effort to reassure the IMF of his intentions but said "monopolies are acceptable if they are in the public interest".

Chinese bureaucrats remain cheerful as axe sharpens

James Kynge and **James Harding** on ambitious plans to halve number of government officials

The government has approved a savage programme of downsizing

On a bright spring afternoon in Beijing last week, there was a steady stream of smiling bureaucrats coming out to pose for photographs beside the official plaque on the front gate of the Ministry of Labour.

"Quick, quick, take the picture! The sign will have disappeared by next week," one government official told another, laughing off the fact that China's legislature has just decided to make their ministry redundant.

The mood among Beijing's bureaucrats is surprisingly chirpy – particularly surprising given that the government has approved a savage programme of downsizing, which aims to halve the number of officials on the government payroll – an estimated 4m people – and scrap a quarter of government ministries. In the case of the labour ministry, for example, its functions are to be subsumed by a new "super-ministry" of labour and social security.

"There is no way that they are going to put so many people out of jobs. There's just no way," says one transport management official at the Ministry of Communications, who despite being in his late 40s says he has no worries about job security.

"Even those people that will be removed from the ministries will not be laid off. They'll be transferred, moved into economic entities spun out of their old government institutions."

Such cheerfulness in official circles may bolster suspicions that China's leaders, who have launched their bold plans for a fundamental restructuring of government institutions with a steely rhetoric, could have trouble getting their reforms past a bureaucracy that has fudged such initiatives in the past.

China has made three ambitious attempts to reform the structure of government since the country started to embrace the principles of the market economy in the late 1970s: in 1982-85, again in 1988 and most recently, in 1992-95.

But each time, the reforms ran aground. The problem was, according to state media reports last week, that "after the fervour for reform had died down, governmental institutions became bloated again... Subsidiary bodies were always set up to find new employment for the cut-off officials."

This time the government says it is more determined than ever and its plan is substantially different.

The programme approved earlier this month by the National People's Congress, China's parliament, will cut the number of government ministries from 40 to 29, in an attempt to produce a leaner administration.

For example, the ministry of machine building industry and the ministry of internal trade, that are seen as relics of an era of central economic planning and excessive bureaucratic meddling, will be abolished. The work of many of the axed ministries will be done in the future by the new "super ministries".

Dong Fureng, of the standing committee of the NPC, believes the government is determined: "We have had a huge government with too many duplicate institutions and a low rate of efficiency. Such a vast bureaucracy has also cost the government a lot of money."

The move towards a smaller state apparatus is also essential if China is going to change its nannied state enterprises into independent, commercially-minded companies, he argues: "Government has tended to interfere in the work of enterprises and some enterprises have tended to rely on government. If we don't change this situation, these state-owned enterprises will never learn to operate within the rules of the market economy."

Much will depend on how quickly the bureaucrats left behind learn to improve their own productivity, taking on more work with a smaller staff. But, the bigger stumbling block is likely to remain the government's habit of relocating inefficient workers rather than removing them.

Farming out officials to corporations affiliated to their former ministries will help cut the obvious fat of China's civil service. But only if those corporations can make the transition to independent commercial businesses will Beijing ultimately be able to count savings in the state sector wage bill and point to a new generation of efficient, service-oriented technocrats.

Li Boyong, the outgoing Labour minister, offered a glimpse of the leadership's eagerness to soothe any anxiety among Chinese officials. "The restructuring will be ruthless, but we will try our best to ensure a sympathetic relocation," he said.

Similar signals from ministers, including a comment from Mr Zhu that government officials are the "precious jewels of the country" and that the leadership "should properly arrange their new jobs one by one", have buoyed the mood among bureaucrats.

A division chief at the Personnel Ministry offered a thumbnail sketch of how the government might halve the civil service. "In the past, we may have had 10 people in a department doing the work of just eight people. Let's say, a couple leave on retirement. Then, another three could go to companies that have taken on responsibilities that have been transferred from the ministry. That leaves five people in the office."

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	98.2
1989	115.5	112.7	5.2	97.9	100.5
1990	116.2	112.4	5.5	82.7	97.7
1991	113.3	110.2	6.8	61.7	95.6
1992	117.0	113.6	7.4	61.8	100.1
1993	122.2	117.7	6.8	67.7	103.7
1994	129.2	124.0	6.0	79.0	109.4
1995	132.6	130.2	5.5	79.3	113.7
1996	137.5	134.7	5.4	77.0	118.3
1997		141.4	4.9	79.0	125.4
1st qtr.1997	4.4	5.0	5.2	79.3	122.6
2nd qtr.1997	2.9	4.3	4.9	77.3	123.8
3rd qtr.1997	4.6	4.9	4.8	78.9	127.2
4th qtr.1997	4.0	5.7	4.6	80.0	128.0
February 1997	4.3	4.6	5.2	81.2	122.9
March	4.0	5.3	5.2	79.0	123.2
April	3.1	4.7	4.9	78.9	122.5
May	2.2	4.3	4.8	73.3	123.7
June	3.5	3.9	5.0	79.7	125.2
July	4.7	4.7	4.8	78.7	126.3
August	5.1	5.0	4.8	77.7	127.4
September	4.1	5.0	4.9	80.4	127.9
October	3.5	5.7	4.7	78.5	128.7
November	4.3	5.6	4.6	82.6	128.0
December 1997	4.3	5.8	4.6	78.9	127.5
January 1998		5.4	4.6	79.6	127.1

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	122.6	113.1	2.5	135.2	95.7
1989	132.6	119.7	2.2	146.3	100.5
1990	141.6	124.5	2.1	149.8	100.8
1991	144.5	126.8	2.1	144.2	97.7
1992	139.7	119.0	2.1	124.2	92.2
1993	131.7	113.6	2.5	105.8	92.3
1994	129.4	114.5	2.9	99.4	95.9
1995	128.4	118.5	3.1	103.2	98.4
1996	132.6	121.7	3.3	115.3	100.5
1997	132.0	126.8	3.4	120.6	100.6
1st qtr.1997	9.0	6.4	3.3	121.7	101.7
2nd qtr.1997	−6.7	6.7	3.5	121.0	101.5
3rd qtr.1997	−1.5	4.2	3.4	121.0	100.7
4th qtr.1997	−2.9	−0.3	3.4	118.7	99.3
February 1997	1.8	3.5	3.3	112.0	101.6
March	23.0	7.5	3.2	121.3	101.9
April	−12.6	4.8	3.3	121.0	101.5
May	−3.6	7.5	3.6	121.3	101.6
June	−3.8	7.8	3.5	120.6	101.3
July	−2.2	5.0	3.4	120.8	101.1
August	−0.3	3.3	3.4	120.4	100.7
September	−2.0	4.3	3.4	122.1	100.3
October	−2.3	2.1	3.4	119.7	99.8
November	−2.1	−2.0	3.5	116.7	99.1
December 1997	−4.4	−1.0	3.4	119.5	98.9
January 1998	−1.9	−3.2	3.5	112.0	99.2

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	109.1	106.3	6.2	165.1	90.0
1989	111.9	111.4	5.6	219.5	94.8
1990	119.7	117.2	4.8	261.9	98.5
1991	125.0	121.7	4.2	297.9	96.5
1992	122.8	120.0	7.7	287.9	93.3
1993	119.7	112.5	7.9	229.0	91.2
1994	117.6	117.6	8.4	241.2	100.3
1995	118.5	119.4	8.2	268.3	101.5
1996	117.2	119.0	8.8	274.1	101.4
1997	115.6	112.6	9.9	282.8	109.6
1st qtr.1997	−0.5	4.1	9.4	273.1	105.9
2nd qtr.1997	0.6	2.0	9.6	275.8	108.6
3rd qtr.1997	−2.9	2.6	9.9	285.6	111.6
4th qtr.1997	−1.7	3.5	10.0	297.2	111.6
February 1997	0.1	6.7	9.4	273.3	106.0
March	−1.8	4.0	9.5	280.0	107.1
April	−0.1	2.9	9.5	270.8	107.8
May	2.4	0.6	9.6	275.8	108.7
June	−0.6	2.6	9.7	280.8	109.4
July	−3.5	6.3	9.7	280.8	111.1
August	−2.2	0.9	9.9	288.3	111.6
September	−3.1	0.5	10.0	287.5	112.1
October	0.9	4.1	10.0	290.8	111.9
November	−1.7	3.5	10.0	300.0	111.5
December 1997	−4.4	2.9	10.0	300.8	111.3
January 1998	−1.0	6.8		301.6	

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.9	107.2	10.0	135.3	98.4
1989	109.5	111.1	9.4	160.6	100.4
1990	110.4	112.8	8.9	163.2	98.2
1991	110.2	111.5	9.4	128.2	95.4
1992	110.5	110.1	10.4	109.5	96.6
1993	110.7	105.9	11.7	90.0	94.9
1994	110.5	110.0	12.3	104.1	102.2
1995	110.6	112.4	11.6		101.3
1996	110.2	112.6	12.3		100.7
1997	111.4	116.8	12.5		105.23
1st qtr.1997	−1.3	0.7	12.5		103.2
2nd qtr.1997	0.9	3.4	12.5		103.8
3rd qtr.1997	1.7	4.6	12.5		106.3
4th qtr.1997	2.9	8.3	12.4		107.1
February 1997	−3.2	0.7	12.5		103.4
March	−0.5	1.0	12.5		103.5
April	1.0	4.4	12.5		103.3
May	3.1	2.4	12.5		103.7
June	−1.5	3.5	12.6		104.4
July	2.7	4.7	12.5		105.6
August	−0.6	4.7	12.5		106.4
September	3.2	4.3	12.5		106.9
October	4.6	6.7	12.5		107.0
November	−0.6	5.0	12.4		107.1
December 1997	4.8	7.3	12.2		107.1
January 1997	4.8		12.1		107.3

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1988	107.9	114.3	10.0	97.2
1989	116.9	118.7	10.0	98.2
1990	114.4	118.0	9.1	96.5
1991	114.8	116.9	8.8	96.8
1992	116.9	115.4	9.0	94.6
1993	113.5	113.0	10.3	95.4
1994	106.5	119.9	11.4	103.9
1995	101.3	127.3	11.9	104.4
1996	99.2	123.7	12.0	104.6
1997		126.8		112.6
1st qtr.1997	3.3	−0.3	12.2	108.5
2nd qtr.1997	4.3	2.3	12.1	109.6
3rd qtr.1997	8.6	3.4	12.1	112.9
4th qtr.1997		5.6		115.9
February 1997	2.5	1.6	n.a.	108.6
March	3.6	0.0	n.a.	108.7
April	5.3	3.9	n.a.	108.8
May	7.5	2.8	n.a.	109.5
June	0.3	0.4	n.a.	110.4
July	8.8	3.3	n.a.	111.6
August	8.6	4.6	n.a.	113.0
September	8.2	2.4	n.a.	114.2
October	8.0	4.5	n.a.	114.8
November		4.5	n.a.	115.9
December 1997		7.8	n.a.	117.1
January 1998			n.a.	118.3

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	117.8	111.7	8.6	144.0	96.9
1989	120.1	114.0	7.2	124.3	95.8
1990	121.1	113.7	6.9	97.7	94.8
1991	119.4	109.9	8.8	68.6	95.2
1992	120.4	110.2	10.1	69.6	99.1
1993	123.9	112.6	10.4	76.5	104.9
1994	126.5	118.7	9.5	93.7	109.2
1995	129.9	121.2	8.7	107.4	111.0
1996	133.7	122.6	8.2	131.1	112.3
1997	140.6	124.4	7.1	162.0	114.5
1st qtr.1997	4.6	1.4	7.5	156.0	113.9
2nd qtr.1997	5.4	1.6	7.2	158.6	113.9
3rd qtr.1997	5.2	1.9	7.0	166.5	114.4
4th qtr.1997	5.6	0.6	6.6	166.9	115.7
February 1997	4.5	1.6	7.4	156.9	113.9
March	4.7	0.4	7.5	159.0	114.1
April	4.9	2.4	7.3	157.0	114.1
May	5.6	−0.1	7.1	156.9	113.8
June	5.6	2.4	7.3	161.8	113.9
July	6.4	2.2	7.2	162.3	114.0
August	5.4	2.2	7.0	166.3	114.3
September	3.9	1.4	6.8	170.9	114.8
October	6.5	1.4	6.7	176.9	115.6
November	4.9	0.5	6.6	164.3	116.0
December 1997	5.5	0.1	6.6	159.5	115.7
January 1998	6.9	−0.4		152.5	115.4

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US - help-wanted advertising, Japan - new vacancies, Germany and France - all jobs vacant, Italy - no data available, UK - unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Half hour period ending	Provisional Prices for Trading on 17.03.98: Pool purchase price £/MWh	Final Prices for Trading on 17.02.98: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	16.08	12.67	12.67	0.00
0100	16.08	32.24	33.03	1.41
0130	18.26	32.24	33.03	1.41
0200	18.26	32.24	33.03	1.41
0230	18.26	15.00	15.00	0.00
0300	18.26	12.65	12.65	0.00
0330	18.26	12.65	12.65	0.00
0400	18.26	12.67	12.67	0.00
0430	16.08	12.67	12.67	0.00
0500	16.05	12.60	12.60	0.00
0530	16.01	12.67	12.67	0.00
0600	16.02	10.60	10.60	0.00
0630	16.04	12.67	12.67	0.00
0700	18.12	12.67	12.67	0.00
0730	27.42	22.28	23.07	1.41
0800	27.42	24.45	25.24	1.41
0830	31.69	35.32	38.11	1.41
0900	31.69	26.46	27.25	1.41
0930	58.13	45.86	46.65	1.41
1000	58.13	94.44	95.23	1.41
1030	35.92	94.44	95.23	1.41
1100	31.69	45.96	46.75	1.41
1130	31.69	45.96	46.75	1.41
1200	31.69	45.96	46.75	1.41
1230	105.65	45.96	46.75	1.41
1300	105.65	45.96	46.75	1.41
1330	30.73	36.08	36.87	1.41
1400	30.08	36.08	36.87	1.41
1430	30.08	36.08	36.87	1.41
1500	30.08	36.08	36.87	1.41
1530	30.08	36.08	36.87	1.41
1600	30.08	36.08	36.87	1.41
1630	30.08	36.08	36.87	1.41
1700	30.08	36.09	36.88	1.41
1730	32.82	43.28	44.10	1.41
1800	33.98	48.50	49.38	1.41
1830	29.49	51.28	52.18	1.41
1900	52.45	51.23	52.11	1.41
1930	52.46	51.08	51.88	1.41
2000	50.82	46.23	47.02	1.41
2030	35.93	44.00	44.79	1.41
2100	33.97	36.08	36.87	1.41
2130	29.42	36.08	36.87	1.41
2200	27.37	35.32	36.11	1.41
2230	17.40	22.04	22.83	1.41
2300	28.61	12.65	12.65	0.00
2330	17.40	12.65	12.65	0.00
2400	17.40	12.65	12.65	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of operating the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8.30am and 5.15pm Monday to Friday.
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CONTRACTS & TENDERS

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Invitation for Bid No 1 for delivery of "CHIPCARDS to be used in the Payphone System of the Albanian Telecom. The Bid must be submitted not later than Monday 20.04.1998, at 10.00 a.m., when the Bid will be open in Albanian Telecom Headquarters in the presence of Bidder's representatives who wish to attend.

Invitation for Bid No 2

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ALBANIAN TELECOM, Account Number 363/107/01
NATIONAL COMMERCIAL BANK OF ALBANIA
TIRANA BRANCH No. 1, Tirana, ALBANIA

The Bid must be submitted to the secretary of the ALBANIAN TELECOM on the following address:

ALBANIAN TELECOM, Rruga "Myslym Shyri", No. 42, Tirana-ALBANIA

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For any further information you can contact the following address:

ALBANIAN TELECOM
Procurement Department
Rruga "Myslym Shyri", No. 42, Tirana-ALBANIA
Attn. Mr. Boris CFARKU
Tel: ++355 42 41101 / 43863 / 30160
Fax: ++355 42 32200


1968 - B.Beamon
8.90 m
1965 - R.Boston
8.35 m

Sex claims 'mystify' Clinton

By Gerard Baker in Washington

Kathleen Willey: distressed

Once again under siege by accusations of improper sexual behaviour and cover-ups, President Bill Clinton yesterday denied he had ever groped and fondled a former White House volunteer in his private study.

Mr Clinton said that "nothing improper happened" in a meeting with Kathleen Willey in November 1993 and insisted he had told the truth when he denied under oath making any sexual advance towards her.

"I am mystified and disappointed by this turn of events," he said, following Ms Willey's nationally televised accusations on Sunday. "I have done everything I could do to clarify the situation," he added.

Ms Willey alleged that Mr Clinton made an aggressive sexual advance on her when she went to the White House to ask for help in finding a job when she and her husband were in deep financial trouble.

The accusation is potentially the most serious yet in the continuing investigation of the president, which began in January with the publication of allegations by Monica Lewinsky, a former junior White House employee, of an affair with the president.

Kenneth Starr, the independent prosecutor, is investigating the claims, focusing especially on suggestions Mr Clinton may have lied under oath when asked about the incidents, and may have tried to persuade others to do so.

Mr Clinton said yesterday he stood by his sworn testimony he gave to lawyers in the Paula Jones sexual harassment case, in which he denied any sexual encounters with either Ms Willey or Ms Lewinsky.

Mr Clinton said in that testimony in January that he had been trying to console Ms Willey when she came to see him because she was so distressed.

He had embraced her and may have kissed her on the forehead, but denied that there was "anything sexual" about the encounter.

Meanwhile, White House officials pointed out some inconsistencies in Ms Willey's behaviour after the alleged incident. Ann Lewis, Mr Clinton's director of communications said Ms Willey repeatedly made efforts to get a job with the White House in 1996, hoping to work on Mr Clinton's re-election campaign.

"She came to see me several times, she called me several times. It was about how positive she felt about the president, how much she wanted to come work on the campaign," she told ABC News. But some Republicans were emboldened by what they saw as Ms Willey's more convincing denunciation of Mr Clinton than that apparently given by Ms Lewinsky.

Ill-prepared for battle, Page 15

INTER-AMERICAN DEVELOPMENT BANK COLOMBIAN PRESIDENT SEEKS TAXES ON SHORT-TERM CAPITAL FLOWS

Samper attacks 'speculators'

By Stephen Fidler in Cartagena, Colombia

Amid tight security, the annual meeting of Latin America's regional development bank was opened yesterday with a call from President Ernesto Samper of Colombia for governments to examine more closely imposing taxes on flows of short term capital.

Colombia already uses controls on inflows of such capital, as do Chile and Brazil. Mr Samper said that the recent Asian crisis had demonstrated that the lifting of controls on the entry and exit of capital had encouraged disruptive flows of speculative capital and encouraged criminal activity, such as money laundering and trafficking in arms.

"We must start to examine, without prejudging the issue, measures that Colombia has tried with relative success, such as the imposition of a tax on short term capital flows to deter speculative activity," he said.

As he opened the Inter-American Development Bank meeting, a Colombian gunboat patrolled the water outside the conference centre in this coastal resort. Army units lined the streets. The meeting, which has attracted more than 3,000 bankers and officials, was also attended by President Alberto Fujimori of Peru and President Ernesto Pérez Balladares of Panama.

Mr Samper's speech, which also called for Latin America to develop a method of "alternative development," also cited the Italian communist philosopher Gramsci and the father of Latin America's now discredited model of import substitution Raúl Prebisch.

Concern about security problems have deterred many visitors from coming to the meeting, which – at least outside the official sessions – has been focussing on the fallout from Asia on Latin America.

While the region is seen as having escaped the worst of the financial contagion, the crisis in Asia is not seen as having played itself out. Furthermore, some retreat among investors from assets seen as riskier in the wake of the crisis has cooled prospects for financing deals.

Among other economic developments that have generated some concern, the region's current account deficit is expected to widen this year, even as economic growth slows down. This implies increasing financing demands for the region – as the supply of capital is reduced, both because Asia is now competing for more funds in the international capital markets and because investors' appetite for risk has been reduced.

According to Mr Arturo Porzecanski, emerging market economist for ING Barings in New York, this suggests some unpleasant surprises for economies later this year. "Brazil is not the worry," he said. "The concern is that most of the rest of Latin America is spending and investing at levels that cannot be financed."

Brazil foresees hefty fall in 1998 public sector deficit

Stephen Fidler, Latin America Correspondent, talks to Antônio Kandir, the country's planning minister

Brazil's overall public sector deficit will fall this year to less than 4 per cent of gross domestic product from last year's 5.9 per cent level, according to planning minister, Antônio Kandir.

He said the government was still working on its projections for the current year, but the expectation was for a significant fall in the figure to below 4 per cent. The size of last year's deficit outcome provoked disappointment in financial markets when it was announced.

Planning officials said it was still not clear how far last year's sharp rise in interest rates would affect economic activity and therefore tax collection. Moreover, the path of interest rates – which affect the deficit by increasing the cost of government debt – is also uncertain. Also, the federal government is not able fully to control spending by Brazil's states, which may tend to grow in a general election year.

Mr Kandir, speaking in an interview, said interest rates should continue their downward path toward 20 per cent, having already fallen to around 28 per cent from their peaks of 43 per cent late last year when the Asian crisis was at its height.

This had led general expectations for growth this year to be scaled up from a range of minus 0.5 per cent to plus 1 per cent in November – to between 1.5 and 2.5 per cent now.

He said the government expectation was that the deficit on the current account would fall to $30bn this year, representing 3.5 per cent of gross domestic product, compared with $34bn and 4.2 per cent in 1997. "We are very comfortable with the financing of this deficit."

Foreign direct investment was expected to expand from last year's record $17bn to $20bn this year – increasing the share of the deficit financed through FDI from a half to two-thirds. The increase would be encouraged by privatisations expected to raise $32bn – of which 40 to 50 per cent were expected to come from abroad. Of the rest, some $2bn of FDI had already entered the country in the first two months of the year.

Mr Kandir said foreign direct investors would be encouraged by the public commitment of President Fernando Henrique Cardoso that the country's exchange rate policy would not be changed either this year or next. Brazil devalues its nominal exchange rate monthly at an annual rate of about 7 per cent.

The currency is still widely considered by economists to be overvalued. But that overvaluation is narrowing as inflation is now running at a rate below currency depreciation, and productivity gains across the economy are estimated by the government at some 6 per cent a year.

These gains in productivity were showing through in export growth, he said. In the year to February, exports grew at a 14 per cent annual rate. Though this would be tempered, 1998 should see growth of 10 per cent over the year, he said.

Kandir: hoping for a significant improvement

The planning minister said the budget deficit reduction should be aided by social security legislation this year. This would save R3.4bn ($2.59bn) in its first year, R5bn in its second year and R7bn in the third – and could be passed into law, he said, as soon as April.

The cost of the social security system is estimated at some R47bn this year. An administrative reform proposal, also advancing through Congress, would save $8bn a year – but the savings would only be made once new regulations were in place and this could not happen until at least 1999..

Shift towards private sector

By Stephen Fidler

Shareholder governments of the Inter-American Development Bank have moved closer to agreeing two changes that will increase the bank's involvement in private sector finance in the region.

In the first, a consensus has emerged – backed by the US – over increasing the capital of the Inter-American Investment Corporation, the private-sector equity arm of the bank that the US wanted to wind up in 1994. The IIC's management has called for an increase of $300m to $500m in its $200m capital base.

In the second, the IADB appears to be moving towards doubling the ceiling on its direct lending to private sector entities, without government guarantee, from 5 per cent of total lending – equivalent to about $400m a year. This would be directed towards infrastructure projects, an increasing proportion of which are financed by the private sector. The IIC capital increase will be referred to a committee of its governors later this year.

The support from the US represents a turnaround in its view of the IIC, which was reduced in size in the early 1990s. It has become a large investor in private equity funds directed to Latin America. Around $85m has been directed to investment funds with a capitalisation of $1.2bn. If the US formally backs it – and a US official described it as a "hard sell" to Congress – it will imply a commitment in the budget for 2000.

Some opposition remains to expansion of the private sector lending, but a consensus on this, and a limited expansion of its private sector guarantee programme, was expected to emerge. Estimates are the bank can mobilise lending of five to seven times its commitment by its participation in a private sector project.

Naval shipyard scraps expansion

By Richard Waters in New York

An attempt by one of the six big US naval shipyards to branch out into commercial shibuilding ended yesterday with the news that poor labour productivity and rising materials costs had forced Newport News, a yard in Virginia, to abandon its attempts to diversify.

Like other US yards facing the squeeze of a shrinking defence budget, Newport News had sought to fill the gaps in its order book by building vessels such as double-hulled oil tankers, the first of which it completed last year. The yard tried to raise productivity levels to make itself competitive with foreign yards, but was faced with cost overruns and flagging performance.

It had already put the losses from its first four commercial vessels since 1979 at more than $100m, costs it attributed to the "learning process" of becoming a big commercial yard.

Yesterday, Newport News Shipbuilding, the public company that operates the yard, revealed a new batch of problems that finally persuaded it to back out of commercial work altogether, at an additional cost of $150m.

William Fricks, chairman, said a special review of the operation had revealed "a number of issues relating to costs of material and labour productivity," and that these had been serious enough to kill the commercial venture altogether. The news will dampen hopes that the country's naval yards can supplement their defence business by expanding into the commercial arena.

Critics of that drive, which has been supported by the US defence department, have claimed that labour practices in US yards, along with decades of protection from international competition under the Jones Act, have left them unsuited to the commercial world.

The yard attributed a large part of its problems to requirements associated with changes to the new domestic ship design".

OBITUARY DR BENJAMIN SPOCK

Influential 'father of the baby-boomers'

Controversial American paediatrician whose baby book turned into one of the best-sellers of all time

Dr Benjamin Spock, the paediatrician whose influence on post-second world war parenting was so strong that he became known as the "father of the baby-boomers," has died at the age of 94.

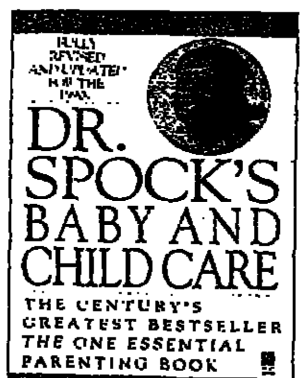
Dr Spock was a controversial figure throughout most of his long life. His 1946 publication, *The Common Sense Book of Baby and Child Care*, was one of the best-selling books of all time and profoundly altered the field of pediatrics. Later printed in paperback, it sold 50m copies and was translated into at least 30 languages.

Dr Spock pioneered child-rearing notions that while widely accepted today, were considered radical at the time: natural eating and sleeping schedules for infants and no forced toilet training. Dr Spock was also a champion of breast-feeding when society frowned upon the practice as barbaric and unhealthy for mother and child.

According to Dr Spock, post-war parents worried too much about strict schedules and firm discipline. He preached a more instinctive method of child care. In his first book, he advised mothers: "Trust yourself: you know more than you think you do."

Freudian psychology exerted a powerful influence on his work, he later admitted, although he never made reference to such theories in his early books, fearing a public backlash. Dr Spock also weighed in early in the "nature versus nurture" debate, claiming that children deserved to be treated as individuals.

As rebellious baby-boom adolescents burst on the political scene in the 1960s, many Americans blamed the looser parenting style recommended by Dr Spock for what they saw as a generation gone awry. The star paediatrician seemed to fulfil their worst fears when he allied himself politically with the young people whose upbringing he had so heavily



influenced.

He joined Martin Luther King in protesting against the Vietnam war, and was arrested and prosecuted for encouraging draft resistance. In 1972, he ran for president as a candidate of the Peoples Party, and received more than 75,000 votes.

The famed paediatrician stood by his writings, saying he had never sanctioned unco-operativeness and impoliteness in children. Still, Dr Spock conceded in later years US conservatives had been right on one point: he believed his early writings were lacking in spirituality.

Yet Dr Spock also came under fire from liberals. Some complained that his advice to let children cry themselves to sleep was cruel. Others upbraided him for his early stances against working mothers. He later changed his mind on dual-career parents, and included a section on working mothers in a revised version of his book in 1992.

The paediatrician was born to a wealthy family in New Haven, Connecticut in 1903. His life was one of privilege. He attended the elite Philips Academy in Andover, Massachusetts, and the Ivy league Yale University in New Haven. At university, he joined the rowing team and won a gold medal at the 1924 Olympics. He dreamed of becoming an architect, but turned to medicine after spending a summer as counselor at a camp for disabled children.

Dr Spock's personal life was even more turbulent than his professional career. His first wife spent over 40 years in therapy and time in an asylum after a nervous breakdown. His two sons said he was an authoritarian, distant and unaffectionate father. They, too, were right, he later admitted. "I never kissed them," he once said. "I should have."

Most recently, Dr Spock dedicated himself to campaigning for a macrobiotic lifestyle, to which he converted after marrying his second wife Mary Morgan, 40 years his junior. He was influential in getting the US Department of Health to officially recognize vegetarianism as a healthy option for Americans.

He continued to write about child care throughout his life, but the most recent editions of his books were criticized for being hopelessly out of date. His 1992 version of the classic Baby & Child care included sections on how to deal with divorce and how to talk to children about Aids and sex. Yet he also wrote of bottle sterilization, a method most US doctors now deem unnecessary.

The doctor had fallen into such poor health over the last few years that his wife made a public appeal for help with his $10,000 per month medical bills, which she said were only partially covered by medical insurance.

He died on Sunday in San Diego. His doctor made the announcement in Boston on Monday morning, but did not give a cause of death.

While Dr Spock is perhaps best known for very public reversals of opinion, his message has been surprisingly consistent within the rapidly developing field of paediatrics.

He preached a middle-line between permissiveness and discipline that is widely embraced by many parents today.

Victoria Griffith

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FENESTRA SYSTEMS LIMITED

Notice is hereby given, pursuant to section 48(2) of the Insolvency Act 1986, that a Meeting of the unsecured Creditors of the above named Companies will be held at The Hilton National, Bracknell, Berkshire, on 19th March 1998, at 10.00 a.m., 11.30 a.m., 12.30 p.m., 1.30 p.m., 2.00 p.m. and 3.00 p.m. respectively, for the purposes of having laid before it a copy of the report prepared by the Administrative Receivers under section 48 of the said Act. The Meeting may, if it thinks fit, establish Committees to exercise the functions conferred on Creditors' Committees by or under the Act. Creditors whose claims are wholly secured are not entitled to attend or be represented at the Meeting. Other Creditors are entitled to vote if they have delivered to us at 15 Pembroke Road, Clifton, Bristol, BS8 3BG, no later than 12 noon, on the business day before the day fixed for the Meeting, written details of the debts they claim to be due to them from the Companies, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986, and there has been lodged with us any proxy which the Creditor intends to be used on his behalf

P J Ridett Joint Administrative Receiver
13th March 1998

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VENDÔME LUXURY GROUP SA
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NOTICE TO SHAREHOLDERS

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Dealings in Vendôme units on the London and Luxembourg Stock Exchanges will also be suspended from 3.00 p.m. (London time) on 19 March 1998. It is expected that, if the Proposal becomes effective on 25 March 1998, the listing of Vendôme units on the London and Luxembourg Stock Exchanges will be cancelled on that day.

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J.E.K. Pye
Assistant Secretary
Registered Office:
27 Knightsbridge
London SW1X 7YB

By Order of the Board
J.E.K. Pye
Assistant Secretary
Registered Office:
35, boulevard Prince Henri
L-1724 Luxembourg

Dated: 16 March 1998

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ST PATRICK'S DAY CELEBRATIONS US PRESIDENT ECHOES TONY BLAIR'S BELIEF THAT SETTLEMENT IS 'AGONISINGLY CLOSE'

Clinton says Irish talks must 'move forward'

By Bruce Clark in Washington

President Bill Clinton yesterday followed Tony Blair, the UK prime minister, in describing a peace settlement in Northern Ireland as "agonisingly close" and urging the region's politicians to make the necessary compromises. The president is holding out the possibility that he may visit Northern Ireland in May to campaign for the acceptance of a peace deal, if one is agreed in principle next month.

Gerry Adams, Sinn Féin president, and Martin McGuinness, the party's chief negotiator, were expected at the White House last night for the first in a series of meetings between Mr Clinton and Northern Ireland politicians. "The president intends to tell them the moment is now, that they need to move forward," said Mike McCurry, the White House spokesman.

Northern Ireland's leaders should "take advantage of this agonisingly close opportunity, as it's been described by prime minister Blair, and move forward to reaching the outlines of an agreement," Mr McCurry added. The more public side of Mr Clinton's Irish initiative will be seen tonight in a Saint Patrick's Day reception at the White House.

A critical juncture in the Northern Ireland peace talks has lent unprecedented importance to the long tradition of inviting the prime minister of the Republic of Ireland and other prominent figures from the island to celebrate their country's national day in Washington.

Newt Gingrich, the Speaker of the House of Representatives, will today host a lunch, with guests ranging from the US President to Gary McMichael, leader of the Ulster Democratic party, the political wing of the Ulster Defence Association and the Ulster Freedom Fighters. Like Sinn Féin, the political wing of the Irish Republican Army, Mr McMichael's party has been expelled from the peace talks for a short period this year because of alleged involvement in sectarian murders by its paramilitary associates.

President Clinton is expected to have brief separate discussions with at least four other party leaders from Northern Ireland today. Several have grumbled over Mr Adams' invitation to a meeting at the Oval Office nearly 24 hours before his fellow politicians. But in contrast with years past, the British government is raising no objection to contacts between the US administration and Mr Adams, whose latest policy statements appear to have scaled down Sinn Fein's terms for accepting a settlement.

In an unusual event, Mr Adams was expected yesterday at a British embassy reception, hosted by the ambassador, Sir Christopher Meyer, who as spokesman for John Major, the former Conservative prime minister, was closely involved in the Major government's Northern Ireland policy.

Irish echo: a parade celebrating St Patrick's day in the Tokyo district of Harajuku attracted about 2,000 people Picture AP

'All is not well' in murder prison, says minister

By John Murray Brown in Dublin

Adam Ingram, the UK minister responsible for security in Northern Ireland, admitted yesterday that "all is not well" in the top-security Maze prison. But he rejected demands for his resignation from anti-republican unionists.

The murder of an inmate at the weekend was the second killing inside the prison in less than three months. Mr Ingram said the Maze, which holds around 500 republican and loyalist prisoners, was a "unique" regime. He warned of "major public disorder" if the authorities attempted to introduce tougher conditions.

David Keys, one of four Protestant "loyalists" charged with the murder of two lifelong friends at the village of Poyntzpass, was found hanged in his cell on Sunday morning. Police last night arrested a fellow "loyalist" prisoner in connection with the Keys killing. The Poyntzpass murders caused outrage because the friends were Protestant and Roman Catholic.

In January republican inmates shot dead Billy Wright, the imprisoned leader of the outlawed Loyalist Volunteer Force, a Protestant terror group opposed to the peace process.

"We've got to be realistic about the regime at the Maze," said Mr Ingram. "If people want a tougher regime, they've got to say how we address the reaction to that."

Mr Keys, a former member of the British army's Royal Irish Regiment – which replaced the Ulster Defence Regiment – was being held on remand in the LVF unit. Under the regime, inmates are free to roam their own wings and are not locked into cells at night.

Police initially said Mr Keys' death was suicide, but it is now being treated as murder. There are suggestions he may have been suspected of co-operating with the police in identifying the other three men charged with the Poyntzpass murders.

Beef export ban to be lifted for N Ireland

By Michael Smith in Brussels

A two-year ban on exports of British beef is to be eased within weeks after European Union farm ministers gave overwhelming support yesterday to a scheme allowing shipments from Northern Ireland.

Relaxation of the ban was supported by 10 of the UK's 14 EU partners. This provided Britain with its biggest breakthrough on beef since the EU imposed an embargo on exports in March 1996 after scientists said there could be a link between BSE – "mad cow disease" – and Creutzfeldt-Jakob disease, the fatal brain condition which affects humans.

Only Germany and Belgium were against an easing of the ban. Luxembourg and Spain abstained. This meant there was a qualified majority in favour of Northern Ireland resuming exports.

The vote will be an important boost to farmers in the region who exported more than half of their beef before the ban.

Northern Ireland is the only part of the UK with a computerised system able to track cattle movements over a period of years. The scheme will permit exports of cattle from herds confirmed as being free of BSE for more than eight years.

Wesley Aston, commodities director of the Ulster Farmers' Union said: "This is the start of the lifting of the whole ban UK-wide."

Ben Gill, president of the National Farmers Union of England and Wales, said the vote was "a major breakthrough". In London, the agriculture ministry said UK pressure would continue for progress on a wider scheme allowing exports of cattle born after August 1 1996, when the last stocks of potentially contaminated feed were destroyed.

There have been 1,700 confirmed BSE cases in Northern Ireland.

● The BSE epidemic will be over among cattle in Britain by 2001, one of the country's leading infectious disease experts said yesterday, our Science Editor writes. But it was too early to rule out a related epidemic of CJD disease in people.

Roy Anderson, professor of epidemiology at Oxford University, told the BSE inquiry in London that the latest data supported his research group's prediction, first made in 1996, that BSE was declining so rapidly among cattle that there would be virtually no new cases from 2001. There have been 170,000 clinically confirmed cases – and an estimated 1m animals infected – since the disease was first recognised in 1986.

Since there is strong "clustering" of BSE within herds, the scientists expect virtually no new cases in previously unaffected herds.

The outlook for new variant CJD remains as uncertain as when the first nvCJD deaths were announced in March 1996.

Prof Anderson told the inquiry that he and his colleagues had just completed – but not yet published – a thorough analysis of nvCJD. It shows that the pattern of cases – three in 1995, 10 in 1996, 10 again in 1997 and one so far this year – is consistent with a very wide range of possible outcomes.

Asked whether he had changed his own eating habits, Prof Anderson said he had given up certain beef products "largely under the influence of my wife". But he added: "I do think that British beef is probably safer than beef in most of western Europe at the moment."

Long road towards resumption of beef exports

1996

March 27: European Union imposes worldwide ban on exports of British beef and beef products after UK reveals probable link between BSE and Creutzfeldt-Jakob Disease.

June 12: UK proposes phased lifting of ban, including exemption for cattle from herds certified as never having had BSE.

June 19: European Commission endorses certified herds idea, with preconditions.

June 21: UK drops policy of disrupting EU business to get ban lifted. Member states in Florence agree framework for gradual easing of ban.

June 24: Prime Minister John Major pledges UK will be ready to see a lifting of most of the ban by November. Expects UK to be able to export meat from certified herds by October.

October 14: Ministry of agriculture insists certified scheme will be UK-wide.

November 4: No definition of certified herds yet agreed. Government officials acknowledge Northern Ireland will be first to qualify.

1997

February 25: Douglas Hogg, agriculture minister, submits formal proposal to Fischler for "export certified herds scheme".

April 11: Commissioners Fischler and Emma Bonino raise doubts about scheme applying UK-wide.

June 11: EU's scientific veterinary committee throws scheme back, demanding more information and questioning reliability of UK data.

September 17: UK resubmits the scheme.

November 24: EU veterinary experts raise doubts about scheme's working after visit to Northern Ireland.

1998

January 14: European Commission approves scheme.

February 5: EU standing veterinary committee demands further tightening of "certified herds" definition.

March 4: 10 of 15 member states back scheme in veterinary committee

Law firm votes to join Andersen conglomerate

By Robert Rice and Jim Kelly

Wilde Sapte, one of the UK's leading law firms, is to join the law firm network of Arthur Andersen, giving the accountant access to the City of London's lucrative market for financial legal services.

The link is the latest in a string of moves by Andersen in its efforts to become one of the leaders in commercial legal services worldwide. It could signal the start of a restructuring of UK legal services as the other "Big Six" accountancy firms seek to follow suit.

Steven Blakeley, managing partner of Wilde Sapte, said: "We have voted in principle in favour of joining the Arthur Andersen legal network, subject to consultation with our clients." The firms hope to sign heads of agreement in the next two weeks.

The deal also comes as a boost for the accountancy firm at a time when at least two of its competitors are seeking international mergers which would topple the Andersen organisation from its leadership of the sector. "The Arthur Andersen strategy is to develop an international practice of English law," said one senior executive with the firm.

The deal is the most significant move by the accountancy firm in its push to build an international network of law firms. In 1996 it shocked the international legal community by merging its Spanish law operation with leading Spanish commercial law firm, A & J Garrigues, to create the biggest law firm in Spain.

The move also brings to an end its 18-month search for a top City law firm. Although Garrett & Co, the law firm it set up in 1993, has grown quickly, it is not able to compete with big City firms for high-value financial work.

Bill Tudor John, senior partner of Allen & Overy, the UK international law firm, said: "There is a serious lesson for firms of similar size and standing in that Wilde Sapte felt it was necessary to get into bed with a huge organisation like Andersen to ensure their survival for the future."

Although the shape of the deal has yet to be finalised, if Wilde Sapte joins forces with Garrett, the new firm will have almost 500 lawyers and a turnover of more than £80m ($133.6m) placing it just outside the top 10 law firms in the UK.

The Andersen international network of law firms already has more than 1,000 lawyers in 30 countries.

NEWS DIGEST

NATIONAL BUDGET

Premier rules out moves towards single currency

The Budget will contain "no elements of preparation" for the UK's entry into European monetary union, aides to Tony Blair, the prime minister, said yesterday. The pro-European Liberal Democrat party called the move "profoundly disappointing". Today's national Budget, the last before the single currency's proposed launch in January 1999, will contain only "references" to monetary union despite growing concern that the strong pound and high domestic interest rates could act as a barrier to Britain's Emu entry. "The Budget is about setting the course for the domestic economy, so don't imagine there will be big news on the euro," said the prime minister's official spokesman.

Although Gordon Brown, the chancellor of the exchequer, has all but ruled out Britain's entry during this parliament, the government is committed to joining Emu "in principle". Malcolm Bruce, Liberal Democrat Treasury spokesman, criticised the government for not doing enough to prepare the UK for monetary union. "One of the major problems is the strength of the pound and one way to reduce its value would be an early announcement of when we intend to join the euro," said Mr Bruce. **Liam Halligan, London**

● The Budget will contain measures to help small- and medium-sized businesses – including tax concessions to stimulate research and development and for entrepreneurs who sell their companies – together with a raft of tax and benefit reforms to encourage job creation, **our Political Editor writes.** It will represent one of the most comprehensive overhauls of the tax and benefits systems since the mid 1980s.

FINANCE BILL

Treasury confirms fiscal code

Clauses will be included in the forthcoming finance bill requiring every government to publish a code for fiscal stability, the Treasury confirmed yesterday. "In essence, the bill will require the government to issue a code for the application of five key principles of fiscal management – transparency, stability, responsibility, fairness and efficiency – to the formulation and implementation of fiscal and debt management policy," the proposal said.

The advantages of such a code were set out in a recent paper by George Kopits and Jon Craig, officials at the International Monetary Fund. The initiative from Gordon Brown, the chancellor of the exchequer, echoes these sentiments and follows the example of pioneers such as New Zealand. Mr Brown believes it complements his decision to give the Bank of England; the UK central bank, control of interest rates. The proposed code, which will to be laid before the House of Commons by the end of the year, places a legal obligation on the Treasury to do several things that it does already. These include publishing the Budget "Red Book", the Pre-Budget Report and the annual Debt Management Report. **Robert Chote, London**

Editorial Comment, Page 15; Lex, Page 16

CORPORATE GOVERNANCE

'Supercode' urged for reports

Companies could start outlining how they comply with new corporate governance principles in this year's annual reports under proposals put forward by the London Stock Exchange yesterday. The suggestion was made in a consultation paper on a corporate governance "supercode" which combines three previous reports on the issue by City leaders and industrialists. The exchange put forward three separate time scales for the introduction of a two-part disclosure statement in annual reports. This is designed to make companies offer a note of compliance and an explanation of any failure to comply. The supercode was a central recommendation of the Hampel committee on corporate governance which reported at the end of January. **Jane Martinson, London**

CITY REGULATION

Maxwell accountants censured

Regulators yesterday finally disciplined two accountants linked to the Maxwell affair of 1991, and one linked to the Atlantic Computers affair of 1988. Jonathan Ford, finance director of the Maxwell related London and Bishopsgate International Investment Management, was admonished by a tribunal of the Joint Disciplinary Scheme. Michael Stoney, a director of Mirror Group Newspapers, was censured and excluded from the Institute of Chartered Accountants. Peter Goldie, chief executive of British & Commonwealth Holdings, and a director of Atlantic Computers, was censured and excluded. Atlantic's auditors, Spicer & Oppenheim, now part of Deloitte Touche Tohmatsu, was censured and ordered to pay costs of £100,000 ($167,000). **Jim Kelly, London**

ARTS COUNCIL

Shake-up meeting planned

The Arts Council of England, which will distribute £184.6m ($308.3m) in government subsidy and £200m in National Lottery funding this year, is to meet on Wednesday to discuss changes which could transform its operation. Mr Gerry Robinson, chairman of Granada, the media and leisure group, who is to succeed Lord Gowrie next month as chairman, is believed to favour a much smaller council. It now has 23 members, having been increased in size in 1995 when all 10 chairmen of the regional arts boards became members. Mr Robinson wants a council of around 12. The big national companies, such as the Royal National Theatre and the Royal Opera House, would remain under the control of the Arts Council. It would become a strategic body and would act as a court of appeal for regional boards. Any changes would be subject to government approval. **Antony Thorncroft, London**

Scots nationalists take heart from poll

Labour said the Edinburgh parliament would kill off nationalism for a generation. It may well be wrong, reports **James Buxton**

A shiver ran down the spine of the governing Labour party last week when an opinion poll on voting intentions for the Scottish parliament showed it only one point ahead of the Scottish National party. The poll in The Herald newspaper put Labour on 39 per cent and the SNP on 38 per cent, a change for both parties of five points in a month.

Since the electoral system for the Edinburgh parliament includes a proportional element – ensuring that parties win seats in proportion to their share of the vote – the prospect loomed a formidable SNP presence in the 129-seat body after the elections in May 1999.

Alex Salmond, the SNP leader, has even gone so far as to say that the Labour party could be excluded from power in Edinburgh if the nationalists formed a coalition with the Liberal Democrats, the pro-European opposition party at Westminster. "You can see the beginnings of a realignment in Scotland, involving the SNP, Liberal Democrats and some in the Labour party," he said at the weekend.

Mr Salmond maintains that if the party's upward trend continues and it becomes part of the Scottish executive (government) it would insist on a referendum on independence. If that were carried, it would negotiate Scotland's separation from the United Kingdom.

In Labour's plan, things were not supposed to turn out like this; it had been assumed that the party would form a coalition with the Liberal Democrats. Labour believed the devolved parliament would kill off nationalism for a generation by giving Scots as much control of their affairs as most of them wanted. And though Labour does not expect an overall majority in the new parliament it believes it will be the biggest party.

But it has been rattled this year by the steady rise of the nationalists.

Also, the standing of Donald Dewar, chief minister for Scotland, has declined in recent weeks. Many Scots were deeply disappointed by his decision in January to locate the new assembly on a new site in Edinburgh, rather than in the building on Calton Hill that has been an icon of self-rule for two decades.

Then came hints that he had blocked a knighthood for Sean Connery, Scotland's most famous actor, allegedly because he was an SNP supporter. That seemed hypocritical to those who recalled Mr Dewar rubbing shoulders with the former James Bond star during the referendum campaign when Labour and the SNP fought in tandem for a Scottish parliament.

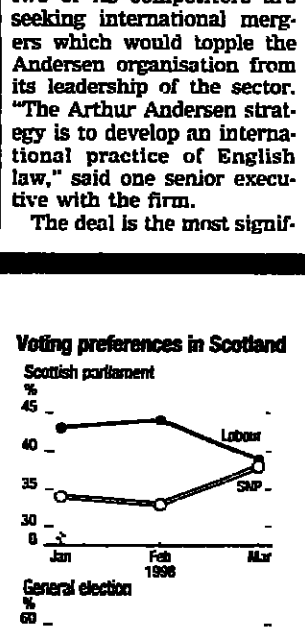
The Scots are predominantly left of centre and many are disillusioned with the Labour government for continuing so many Conservative policies, including the squeeze on public spending. Labour's Scottish conference in Perth last weekend condemned the cuts in lone parent benefits.

But despite Mr Dewar's problems, the SNP may have an uphill struggle to cement its place in the polls. Its policies will now come under more scrutiny and its opponents may expose the inexperience of many of its candidates.

Last week's poll may be a harbinger of further advances. However, the SNP will remember that a poll in January 1992 showed support for independence at 50 per cent, its highest ever. In the national election in April that year the SNP took only 22 per cent of the vote.

But critics of regional assemblies have long argued that the Scottish parliament will provide the platform for the SNP to realise its ambitions. "It could become inevitable," said a senior Scottish businessman. "In five years we could be independent."

Voting preferences in Scotland



Source: The Herald

Welsh parliament may improve business links

By Juliette Jowit in Cardiff

Businesses in Wales are to be given wide powers to influence legislation and economic strategy under an amendment to the House of Commons bill, published today, which provides for the establishment of a regional parliament.

Wales includes near its south coast one of the most successful areas of the UK in attracting factory investment from other countries.

The move further extends the statutory right of businesses to be consulted on matters which have a "significant financial impact" on them.

It follows requests from business groups in Wales which were concerned that the previous clause was too general, relating only to specific regulations and not issues such as economic development.

Russell Lawson, of the Federation of Small Businesses Wales, said he wanted to see the private sector on an equal footing with other groups such as the voluntary sector and local government.

Elizabeth Haywood, director of the Confederation of British Industry in Wales, the employers' lobby, said the clause would formalise the existing close links between business and government.

"At the moment we have a good working relationship with the Welsh Office [the UK government's ministry for Wales] and other organisations; what we don't know is what will happen 10 to 15 years down the line. This gives us a bit of security in the long term."

The Welsh Office, which has been working to win the support of the business community, sees private sector involvement as a key to the success of the regional parliament.

Peter Hain, a Welsh Office minister, said: "Its the strongest possible signal that we are keen to work in close partnership with business in Wales in order to drive through a dynamic economic strategy.

"The assembly itself will stand or fall not just by the way that democracy will be improved, but also whether it adds economic value to Wales."

The CBI is also pressing for business representatives on regional committees of the assembly, and the FSB plans to campaign for a separate voice for small businesses, for example through a specialist sub-committee.

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ANNOUNCEMENT

OF A FIRST PUBLIC AUCTION FOR THE HIGHEST BIDDER
FOR THE SALE OF THE TOTAL ASSETS OF
NITROGENOUS FERTILISERS INDUSTRY (A.E.B.A.L.) S.A.
NOW UNDER SPECIAL LIQUIDATION

ETBA FINANCE Economic and Financial Services S.A. (established in Athens at 1 Eratosthenous St., in its capacity as special liquidator, in accordance with Decision 1/15.1.1998 of the Western Macedonia Court of Appeal, of the above company which has been placed under special liquidation as per article 46a of Law 1892/1990 as complemented by article 14 of Law 2000/1991, as in force today

ANNOUNCES

a first public auction for the highest bidder with sealed, binding offers for the sale, as a whole, of the assets of NITROGENOUS FERTILISERS INDUSTRY (A.E.B.A.L.) S.A. established in the municipality of Ptolemais in the prefecture of Kozani and installed on a plot of land about 1,792,220 m² in area. The buildings cover a total area of about 100,000 m² in various parts of the estate according to production requirements. The factory lies about 4 km. northeast of Ptolemais and about 28 km. northwest of Kozani. A.E.B.A.L. produces and sells simple nitrogenous fertilisers such as nitric ammonia, calcareous nitric ammonia, sulphuric ammonia 21% and compound fertilisers. More information on its products and the capacity of each unit are contained in the Offering Memorandum.

Terms of the Announcement

1. The auction will be conducted in accordance with the provisions of article 46a of Law 1892/1990 as supplemented by article 14 of Law 2000/1991 as currently in force; the terms contained in the present announcement and the terms contained in the Offering Memorandum, regardless of whether or not they are repeated in the present. The submission of a binding offer implies acceptance of all these terms.
2. For a fuller assessment of the company for sale, interested buyers are invited to receive, on signature of a confidentiality agreement, the detailed Offering Memorandum and ask for any other information.
3. In order to participate in the auction, interested parties must submit a sealed, binding offer to the notary public assigned to the auction, Mrs. Despina Kyrstzi-Synodinou, at 48, 25th March Street in Ptolemais, tel. 30+463+26726 from 9 - 12:00 hours on Monday, 6th April 1998. The submission of offers should be made in person or by a legally authorised representative. Offers submitted beyond the time limit will not be accepted or taken into consideration. Offers must not contain terms upon which their bindingness will depend or which create vagueness with regard to the amount or the method of payment of the offered price or with regard to any other essential points. The liquidator and the creditors maintain the right, at their incontrovertible discretion, to reject offers which contain terms and exceptions, even if they are higher than other offers, or consider them to be non-contained, in which case the offer remains binding with regard to the rest of its content.
4. Offers must be accompanied, on penalty of cancellation of the offer, by a letter of guarantee from a bank legally operating in Greece, to the amount of two hundred and fifty million drachmas (GDR 250,000,000) as per specimen contained in the Offering Memorandum, valid until its return to the guarantor bank and guaranteeing both the substance of the offer submitted and any improvements made to it.
5. The offers will be opened by the notary in her office at 14:00 hours on Monday, 6th April. Interested parties who have submitted binding offers within the time limit are entitled to attend the opening of the offers.
6. Offers must specifically state the offered amount, the time and place of payment and in the event of part payment on credit, whether this will bear interest or not, the interest rate as well as the safeguards for final settlement.
7. Essential criteria for evaluating the offers are: a) the size of the amount offered, b) the number of job positions to be created, c) the guarantees provided for settlement of the balance on credit and the fulfilment of other terms, d) the reliability and credit worthiness of the interested party, e) the business plan and in particular the height of proposed investments and f) the commitment to keeping the business running and for how long.
8. For all the above points as well as for the remaining terms to be agreed upon (job positions, height of investments, etc.) the buyer must accept penalty clauses, additionally covered by property or other securities, which will guarantee compliance with the terms agreed upon.
9. The elements which make up the company's assets shall be sold "as is and where is" and, more specifically, in their actual and legal condition and at the place where they are situated on the day of signature of the sale contract. The liquidator and the creditors are not responsible for legal or actual defects or deficiencies of any kind of the assets for sale, nor for any incomplete or inaccurate description of them in the Offering Memorandum. Interested parties, should, with their own means, at their own responsibility and diligence and at their own expense, look into and form their own assessment of the objects for sale. The submission of an offer implies that the interested party is fully aware of the legal and actual state of the objects for sale.
10. In the event that part payment is on credit, the present value will be taken into account in evaluating the offer, which will be calculated on the basis of the interest rate in force at the time of submission of the offer, on Greek Government bonds of one year's duration.
11. In the event that the person to whom the assets of the company under liquidation are adjudicated fails in his obligation to appear at the time and place specified in the liquidator's invitation, in order to sign the relative contract in accordance with the terms of the present Announcement and of his offer, as finally composed, then the guarantee, as above, is forfeited in favour of the liquidator and the creditors in order to cover all expenses of any kind, time spent and real of hypothetical losses sustained, with no obligation to provide proof of such, and consider the amount as a penalty clause and collect it from the guarantor bank.
12. The liquidator bears no responsibility towards participants in the auction, both with regard to the report assessing the offers or to his proposal of the highest bidder. Also, he is not liable and has no obligation to the participants in the auction in the event that the auction is cancelled or declared null and void if its result is deemed unsatisfactory.
13. Those parties taking part in the auction and submitting offers do not acquire any right, claim or demand from the present Announcement and from their participation in the auction, against the liquidator or the creditors for any cause or reason.
14. According to para. 13 of article 46a of Law 1892/1990 the sale contract and the necessary transfers accruing from it and any other relative transaction are exempted from taxes, dues or state or third party rights or stamp duties, while the rights and fees of notaries, lawyers, supervisors and mortgagors are restricted to 30%. Any expenses incurred in the sale of the assets (VAT, the fees of lawyers, notaries and mortgagors, judiciary supervisors, etc.) rights an other expenses are to be borne by the buyer. The present was drafted in Greek and translated into English. However, in the event of differences occurring in translation, the Greek text will prevail.

In order to obtain the Offering Memorandum and for any additional information, please apply to the offices of the liquidator 1 Eratosthenous & Vass. Constantinou Sts. Athens, Tel. (301) 7260210, 7260258, 7260506 and Fax (301) 7260864 and at the company's factory at Ptolemais Tel. (30463) 22241, Fax (30463) 28622.

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PROFILE EUGENE LUDWIG, US COMPTROLLER OF THE CURRENCY

Lawyer who looked after the bankers

Mark Suzman talks to the man widely credited with helping to transform the once ailing US banking system

Financial regulators rarely get credit for successful economies *but they are soon blamed* when good times sour.

Eugene Ludwig, US comptroller of the currency, is one of the exceptions. His decision to step down at the end of his term next month has been greeted with dismay. He has served as the chief regulator for national banks for five years, and is widely credited with helping transform the once ailing US banking system.

When the career lawyer was first tapped for the office by fellow Oxford and Yale Law school graduate President Bill Clinton, the initial reaction of the banking community was suspicious and hostile.

The credit crunch arising from the last recession had bitten deeply, and the banking system was suffering from a crisis of confidence.

Meanwhile, the chief priority of the new comptroller seemed to be ensuring that legislation designed to prevent discrimination in lending was being properly enforced.

"I'm a bit of a do-gooder at heart," *he admits with a wry* smile.

But while that goal has remained at the forefront of Mr Ludwig's agenda, he soon disabused the industry of any notion that he might not also take the financial side of his post seriously. Within months of his arrival he set in motion a radical overhaul, seeking to streamline and modernise regulations, improve competitiveness and efficiency and, above all, ensure the safety andsoundness of the bankingsystem.

For the latter task, Mr Ludwig introduced new econometric models and computer-based checks to *the examiners' repertoire,* allowing the Office of the Comptroller of the Currency to amass detailed risk profiles for different kinds of institutions.

He also implemented a new policy of "risk-based supervision" – concentrating attention on areas most likely to be vulnerable, such as derivatives.

That allowed more efficient use of OCC resources while placing a lighter administrative burden on banks. "We have been very active in terms of getting supervision on the map in the G7 and other global forums, and as the Asia crisis shows the problems we face are now much more international in scope," Mr *Ludwig says.* "We really are at the beginning of a much closer linked supervisory structure worldwide."

'You cannot have a safe and sound banking system unless it is able to evolve over time'

At the same time, Mr Ludwig has largely rewritten the OCC's manual, jettisoning many outdated rules. He has also fought to reshape the broader regulatory framework and the legislative environment within which banks operate.

For decades the industry has chafed against the restrictions in the 1934 Glass-Steagall Act which formally separates banking from the insurance and securities industries. But Mr Ludwig believes banks have been unnecessarily and inappropriately constrained.

Eugene Lugwig: 'I'm a bit of a do-gooder at heart' Picture: AP

"I am convinced that you cannot have a safe and sound banking system unless it is able to evolve over time," he says.

To ensure that banks not only survive but thrive, Mr Ludwig made a series of executive rulings that steadily broadened their ability to offer non-traditional services. Most have been challenged in the courts, but the OCC has won nearly every case.

And although others attribute the legal success in large part to Mr Ludwig's tenacity, he himself pays tribute to the solid legislative framework provided by *the country's venerable* national banking charter – established under President *Abraham Lincoln.*

The indefatigable comptroller's latest move came only last December, when he gave permission for a bank to underwrite municipal bonds using a system of operating subsidiaries that he helped devise.

But Mr Ludwig has not lost sight of his core goals. Only last month he reprimanded many banks for letting their lending standards slip last year. And his constant drive to reduce discrimination in lending has also borne fruit. Lending to inner cities has increased sharply, while the OCC has successfully referred a number of anti-discrimination cases to the Justice department for prosecution.

Mr Ludwig's crusade to expand bank flexibility has often aroused opposition from other regulators who feel Mr Ludwig has encroached on their territory. Many Congressional critics also charge he improperly politicised the OCC by speaking out against compromises with insurance and securities industries.

But Mr Ludwig remains unapologetic, predicting that the formal demise of the old legal restrictions on banks is not only inevitable, but imminent. And although he does not yet know what his future will be, he has only one lingering regret about the recent past. "I wish the job [of modernising the banking system] was all done," he says wistfully. "But I think we've made a strong downpayment."

ESSENTIAL GUIDE TO EUGENE LUDWIG

Eugene Ludwig, 51, has been *US Comptroller of the Currency* since April 1993.

He grew up in York, *Pennsylvania, and received a* BA from Haverford College in the same state in 1968. He later *attended Oxford University,* where he studied Politics, Philosophy and Economics, and *received an LLB from Yale Law* School in 1973.

Prior to joining the Office of the Comptroller, Mr Ludwig practised law at the Washington firm of Covington and Burling, where he was made a partner in 1981.

He is a specialist in intellectual property law, banking and international trade.

Mr Ludwig is also a frequent contributor to scholarly journals on banking and finance and has been a guest lecturer at Yale, *Harvard and Georgetown* Universities.

As Comptroller, Mr Ludwig is *also a director of the Federal* Deposit Insurance Corporation, which insures US banks, and serves as chairman of both the Federal Financial Institutions Examination Council and the Consumer Electronic Payments Task Force.

His office supervises nearly 2,800 commercial banks and 66 branches of foreign banks operating in the US, accounting for over half the total assets in the US commercial banking system.

INFORMATION TECHNOLOGY FINGERPRINT IDENTIFICATION

Help at hand for passwords

Geof Wheelwright on new technology to make PC access easier and more secure

Have you ever spent hours scratching your head as you furiously tried to remember your grandmother's maiden name, or some other arcane bit of information you decided would make *a great* password for your computer access?

You may have experienced the same problem with the PC banking system on your home computer, or any one of hundreds of internet web sites that ask you to remember a name and password before you can access them.

It appears, however, that a solution is at hand, literally. Fingerprint identification systems are becoming cheap enough for well-heeled consumers to use to protect access to their home computers or online bank accounts.

Consider, for example, the Secure Start/ISA kit announced last month by California-based I/O Software to provide fingerprint-based security for any 386, 486, or Pentium class computer running Dos, Windows 95, Windows NT or Unix. Once the kit is installed, anyone who wants to use your computer must have his or her finger scanned each time the computer is turned on or rebooted.

If the user's finger does not match, the operating system will not load, thus preventing access to any information on the hard drive or floppy drive. *Up to 64* different fingerprints can be enrolled at any time, however, meaning that you could allow a several other people to have access to the computer.

The system sells for $659 (£395) complete with fingerprint scanner and software, making it far more affordable than the thousands of dollars you would pay for a commercial fingerprint scanning system.

The package includes a *fingerprint scanner* made by Sony, although I/O Software says it soon hopes to be able to *offer support* for other, perhaps less expensive, fingerprint scanners that could *bring the price* down.

In addition, because the system works *in conjunction* with an add-on expansion card that you install inside the computer, it is completely independent of the operating system software. The card stops the computer loading the operating system until it has successfully checked for the appropriate fingerprint.

Another Californian company, Who? Vision Systems, announced in January a technology it calls Tactile-Sense. It claims the technology will be able to do the same kind of thing as *I/O* Software's product but at a much lower cost.

It suggests that Tactile-Sense will allow mainstream computer users to access their desktops and the internet securely with the touch of a finger.

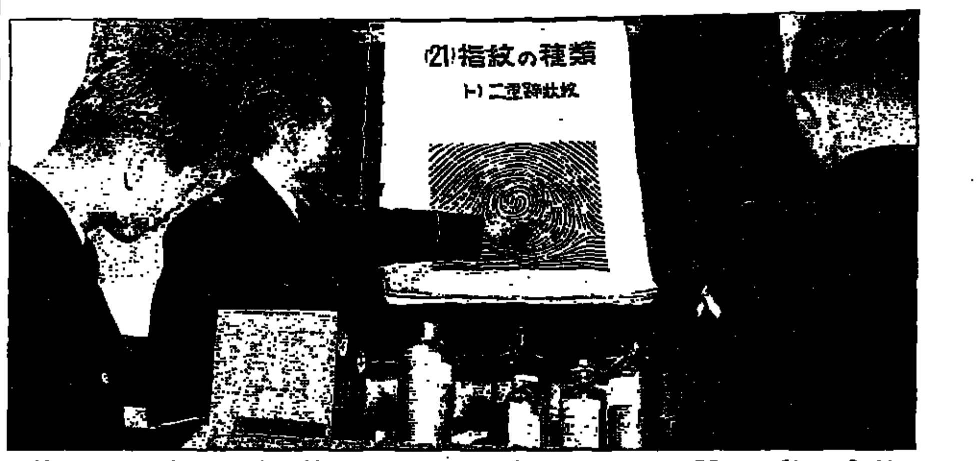
The TactileSense system is composed *of a electro-optical* polymer film sensor (which Who? Vision says is roughly the size of a postage *stamp)* and integrated print matching *software* that identifies the user's fingerprint data. This custom-designed sensor transforms *a finger's* electric field into a high-resolution optical image, then digitises the optical image of the fingerprint.

This digital representation is passed to the PC to which the sensor is attached, where *application* software (stored on the PC) processes, stores and matches the print.

Who? Vision Systems expects that fingerprint identification could be added to computers for $35 or less. *It* says its approach requires *fewer* and less expensive parts than rival technologies, which substantially *reduces* manufacturing costs.

The company suggests *that TactileSense* will enable peripheral and systems manufacturers to embed reliable fingerprint *security* sensors into everyday devices, such as monitors, keyboards and mice, and *says future* versions of TactileSense will be available for use in notebook computers.

Products based on the TactileSense system are expected to go on sale later this year.



Making its mark: Fingerprint identification may soon be within reach of home PC users Picture Corbiss

TECHNOLOGY MACHINES AND MEDICINE

Finding the fresh frontiers for healing

Vanessa Houlder looks at implants and other ways of stimulating bodily self-repair

"New alert over breast implants." "Helpline flooded *after warning on artificial* hips." Headlines like these serve as a vivid reminder of *the shortcomings of the current* generation of medical implants. Implants have improved the lives of millions of people, but they may have left a significant minority with more pain and disability than before.

But the frustration with existing technology is tempered by the promise of an extraordinary new generation of tools for repairing the body. Researchers are working on electrical implants that restore movement to paralysed limbs. Pioneers of tissue engineering are making spare parts from living cells to replace parts of the *human* body.

It is not far-fetched to envisage growing replace*ment heart valves, bones* and simple organs, according to John Robinson, chairman of Smith & Nephew, the UK medical devices company. "We are at the start of a whole new phase of medical technology," he says.

The approach to joint implants is due to be rethought, he says. Hips are replaced using techniques based on mechanical engineering. He envisages a time – perhaps in 20 or 30 years – when doctors will repair faulty hips with biological techniques rather than replace them.

Larry Hench, a professor of ceramic materials at Imperial College in London goes even further. A growing *understanding of the body's* own repair processes will lead to the development of drugs – possibly food additives – that will stop the thinning of the bones that is the cause of many hip and knee fractures. The future could lie in prevention, rather than cure, he says.

But in the meantime, the *emphasis is on improving* traditional solutions to joint replacements. The rewards for those who achieve significant advances could be high. Frost & Sullivan, a market research company, estimates that the US market for joint replacements *could reach $2bn by 2002.*

The recent concern about the unacceptably high fail*ure rate of a particular type* of hip joint, made by 3M, underlines a much wider problem. *As many as a third* of hip replacement operations are revisions. New joints may fail within as little as five years, usually because the bone shrinks from the implant, which then works loose.

Biomaterials researchers are grappling with two main problems. If they use materials that are too stiff, the surrounding bone will tend to break down because it will be shielded from stress. There will also be problems if the implant does not bond *well with the bone – a realis*ation that has shifted the attention of researchers from *inert materials to so-called* "bioactive" materials that interact with bone.

A new generation of biomaterials is being developed in an attempt to tackle these issues. One frontrunner is a composite of hydroxyapatite – the mineral in bone – and a hard plastic known as polyethylene, which has been developed by the Interdisciplinary Research Centre in Biomedical Materials at *Queen Mary and Westfield* College in London.

'You need a realistic view of when the technology can be delivered into medical practice. It will take *many* years'

Clinical trials are under way to determine whether it can restore hearing when it is used in middle ear implants. Although its limited strength currently restricts it to uses within the skull, it is realistic to imagine that it could be strengthened sufficiently to use it in a hip over the next 10 years, according to Dr Elizabeth Tanner of the IRC.

Another promising material is Bioglass, a glass that bonds to bone which was invented in 1967 by Prof Hench. Bioglass, which is produced by USBiomaterials of Florida, is used to repair inner-ear bones and fill bony *voids resulting from ortho*paedic surgery.

Research into Bioglass is *now moving into* a new phase, following the discovery that it can stimulate the body's own ability to regenerate bone and tissue. This property is already being put to use in repairing bone and tissue damaged by peridontal disease.

Another approach to stimulating the body's own ability to regenerate bone centres on the genetically engineered proteins, known as bone growth factors. One of the most promising of these is osteogenic protein-1, *which was originally discov*ered in the mid-1980s.

Stryker Biotech, a Massa*chusetts-based company* that has developed a product based on OP-1, has had *encouraging early results* from a clinical trial focusing on healing problematic bone injuries in the leg. Other possible applications of the protein include coating the surface of artificial hips and knees to speed up their incorporation into the patient's bone.

This sort of development could be hugely *significant,* according to Wade King, a research analyst at Bank*America Robertson Step*hens. "With the discovery of bone growth factors, orthopaedics has been introduced to the biotechnology revolution," he says.

The practical efficacy of tissue engineering is already proven in the case *of skin* and cartilage. A partnership between Smith & Nephew and *Advanced Tissue* Sciences of California is selling skin grown from babies' foreskins as a treatment for diabetics' foot ulcers.

Encouraging results have also been achieved *with* cartilage. Genzyme, the US biotechnology company, is marketing a treatment that involves collecting cartilage cells from patients with knee injuries, culturing them and reimplanting them in very large numbers. ATS and Smith & Nephew are about to embark on clinical trials of a replacement for cartilage using cultured cells taken from cadavers.

Are skin and cartilage *just* the forerunners of much more complicated organs *that* can be grown in laboratories? Much of the technology – with the exception of nerve tissue – is already in place that would permit attempts to grow organs and even simple limbs. The basic approach would involve making a scaffold for the new organ out of a special biodegradable plastic. This would then be seeded with living cells, which pervade and eventually replace the *plastic structure.*

For the present, the brain is considered to be beyond *the scope of tissue engineer*ing. Yet the intriguing possibility of implants that would enhance mental faculties has been opened up by recent research that created an interface between silicon chips and brain cells.

Last October, Caltech announced that they had invented a "neurochip" that connects a network of living brain cells to electrodes on a silicon chip. This achievement prompted speculation that similar devices could be used to wire small cameras directly to brain cells, helping blind people see.

Another development that could foster *implantable* devices such as the "silicon retina", is the development of "porous" silicon, a form of silicon with large numbers of holes in its surface.

Although some of these visions remain highly speculative, there is a real promise of awe-inspiring advances in implant technology. But Alan Suggett, group director of R&D at Smith & Nephew, sounds a cautious note about the time needed to translate these pioneering approaches into reliable and *cost-effective* clinical advances.

"The work in the academic groups shows the way," says Prof Suggett. "But you need a realistic view of when the technology can be delivered into medical practice. It will take many years." Even techniques that are proven in theory may be formidably difficult in practice.

ART GOLDEN AGE OF SPANISH PAINTING

The agonies and the ecstasies

Susan Moore reviews the first Spanish Old Master exhibition in Italy

Until fairly recently, even the most cultivated among the gallery-going public could probably name only a handful of Spanish painters – an illustrious roll-call of El Greco, Zurbarán, Velázquez, Murillo and Goya. The rest of Spain's Old Masters seemed to have stayed at home like well kept national secrets, lying in wait to astound any foreigner who cared to seek them out. All that has now changed through a sequence of loan exhibitions. The latest, devoted to the "golden age" of Spanish painting at the Pinacoteca Nazionale in Bologna is, remarkably, the first of its kind in Italy.

Drawn exclusively from French and Spanish provincial and metropolitan collections, the show offers the broadest – and bumpiest – of overviews. This golden age of El Greco and Velázquez is represented by work of great distinction, some real mediocrities and just plain oddities.

That said, any exhibition which opens with El Greco's "St. Peter and St. Paul" from Barcelona, a powerful example of the artist's visionary manner, and closes with a masterly portrait of the Dwarf, known as "el Inglés", accompanied by a hunting dog seemingly the size of a horse, is not to be overlooked. Most Velázquez buffs believe this work to be only of the circle of Velázquez, and some say it is unfinished and not even a representation of Don Antonio 'el Inglés'. It is a *tour-de-force*, nonetheless. The freedom of touch and the apparently unmeditated realism of the portrait are breathtaking. This canvas does not merely look forward to Delacroix and Manet, it seems to prefigure the effects achieved by Velázquez's greatest modern admirer, Francis Bacon.

Unsurprisingly, religious pictures predominate, alternating between the ecstasies of the Madonna and the spiritual and physical torments of the saints, the evanescent gentleness of Murillo's "St. Gerome at Prayer in the Wilderness" and the stark brutality of *Juan de Roelas*'s depiction of Christ's fate on the road to Calvary.

Portraits are well repre-

Spain's Old Masters have stayed at home like well kept national secrets

sented, not least by the striking painting of the court architect, José Rates, by by the Velázquez's former part Moorish slave, Juan de Pareja (himself the subject of a spectacular portrait by his master, now in New York). While it was not unusual to have a slave-apprentice, Pareja's skill was far from commonplace. According to Antonio Palomino's *History of Spanish Painting* of 1724, Pareja had been permitted only to grind colours and to prime canvases as well as perform other chores in Velázquez's studio. He had apparently knelt at the feet of Philip the 4th in Velázquez's studio and implored him to champion him as he learnt his art without his master's knowledge or consent.

Juan de Arellano's splashy bouquet triumphs among the group of still-lifes which, alas, does not even begin to compare with that brought together for the National Gallery of London's revelatory still-life show three years ago. The closest we get to anything like Sanchez Cotan's austere and memorable meditations on the root vegetable are the earthy radishes at the feet of Murillo's "San Diego di Acala", on loan from the Musée des Augustins at Tolosa.

Illustrating the point that there was never much of a tradition of landscape painting in Spain is a solitary landscape with a St. John the Baptist by Juan Bautista Maino. It can be no mere coincidence that this son of an Italian painter working in Spain was a great friend of Annibale Carracci in Rome, familiar with the pioneering landscapes of Domenichino.

One of the peculiar pleasures of seeing such an exhibition in Italy in general, and Bologna in particular, is that it is possible to move between the Bologna gallery's exhibition space downstairs and the permanent collection above. This allows one to see Velázquez, Murillo, Zurbarán and Ribera and the like effectively juxtaposed with the masters of the Italian baroque – the Carracci family, Domenichino, Guido Reni and Guercino.

The effect is startling, and underlines their profound differences far more than any superficial similarity. *Traditionally, Carracci* is always – and rightly – contrasted with Caravaggio, but he and Annibale Carracci appear positive soul mates by comparison with Velázquez, whose art, for all its intense drama, is entirely devoid of theatricality.

At the Pinacoteca Nazionale, Bologna until April 13, then to Sao Paulo, Brazil.

Breathtaking realism: "Don Antonio, 'el Inglés'", attributed to the school of Velázquez

Talent at high voltage

MUSIC

ADRIAN JACK

Evgeny Kissin
Royal Festival Hall

Evgeny Kissin seems to build up to his encores. The young Russian pianist played five after the last recital of his short English tour on Thursday – not quite as many as he had run to after his BBC Prom last summer. Yet the atmosphere was almost as excitable, until Kissin calmed everyone down by announcing "One last Brahms waltz", and played the gentle A flat major one as a lullaby.

The real high spots were two etudes by Liszt – No.2 in F minor, with deliciously liquid runs in the right hand, and the second of his Etudes after Paganini, with dazzling, glassy flourishes between crisp, staccato chords. Where the sheer physical exhilaration of a sovereign technique counts, Kissin has no betters, and few equals.

Yet that facility is not entirely an asset. The first half of the evening was devoted to music in which some sense of effort is crucial. In Beethoven's A major Sonata, Opus 101, Kissin certainly mustered all his strength to make an impact in the dry, diminishing acoustic of the Royal Festival Hall.

It was quite a shock to hear how thin the piano sounded in the opening Allegretto. That was hardly his fault, though the ample tempo he chose did not carry the music forward easily.

If one of Beethoven's most ambitious sonatas seemed a little carelessly placed as an opener, Brahms's Opus 119 set of *Klavierstücke*, his last, was not in an ideal context afterwards. The two opening *Intermezzi* had all the poise and limpid beauty Kissin brings to intimate music, yet he also pushed climaxes out of proportion to these miniatures.

The elusive C major *Intermezzo* was too choppy, while the treacherous leaps of its climax were swept through with insouciant ease. And that inappropriate sense of disdain replaced what should have been a mood of sturdy defiance in the final *Rhapsodie*.

Perhaps it is easy to niggle when a talent is so overwhelming. You wonder, also, how long Kissin can go on functioning at such high voltage. He is only 26. Liszt retired from his virtuoso career at the age of 36. In the epic Sonata in B minor, which Liszt wrote some seven years later, it was almost reassuring when Kissin's flashing octaves and leaping chords created such volume that the texture became cloudy.

It was a sign that excitement was carrying him away, whereas up to that point, the amazing physical qualities of his virtuosity seemed to obscure the music's emotional motivation.

Greek tragedy without a heart

New translation: Ulrika Hellstrom and Pilar Orti Tristram Kenton

THEATRE

ALASTAIR MACAULAY

Antigone
Riverside Studio 3, London

Coming home from the current production of Sophocles's *Antigone* at Riverside Studios, I tried scraping some of the rust off my ancient Greek and reading the original. Sophocles is one of the epitomes of classicism; his blend of economy and intensity still leaps off the page – although translating it (and, at several points indeed, determining its precise meaning) is remarkably hard. The eloquence is compelling. It was good to be reminded of this, for the Riverside performance of *Antigone* had been a contained and unspontaneous bore.

Greek tragedies can work superbly in small spaces. In the 1990s, there have been good examples at the Pit, at the Gate, and indeed downstairs in Riverside Studios 1 and 2 (where *Antigone*, in a visiting German production starring Ekkehard Schall as Creon, was very well performed in 1995).

I must remind myself, too, that I have seen good, even first-rate, performances upstairs in Studio 3. Nonetheless, its combination of wide-and-shallow space and the most uncomfortable seats in London is pretty lethal; and for *Antigone* the management kindly turned up the heating to such a degree that, all round the auditorium, audience members were to be seen fighting to stay awake, sometimes without success, in what *is* actually a short play.

Gwynne Edwards's new translation of the play is fluent, but – although numerous of his translations of plays have been performed – his verbal style sounds to me more correct translationese than communicative theatrical utterance. At several points, he seems to expose what are, to a modern ear, the stock formulae of Sophoclean drama. Leadenly sententious platitudes abound, such as (after one disaster) "The thought occurs to us that this might be the wishes of the gods"; so do such under-emotional grammatical arrangements as "Through love of him a knife is driven through her heart". Nonetheless, I can imagine some actors taking the very formal containment of his words, and creating from them serious classical intensity.

Forbidden Theatre Company, however, appears to work from outside the text rather than from within. Its publicity, which proclaims "a visual, dynamic style", does not lead one to expect something that looks so very (in the bad sense) choreographed. Possibly the metronomic quality of the production will relax with later performances, but even so the physical style is poor.

The way in which the six actors do arm gestures is an object-lesson in how *not* to gesture. You see an actor's hand twitching while waiting for its cue, then suddenly jerked stiffly up and out to emphasise this phrase or that; the gesture is never more than shoulder-deep, and the actor's neck, torso, other arm, and legs continue in the same old torpor – as if they would prefer it if that *Dr Strangelove* arm did not have so odd a life of its own; then suddenly, with some evident relief, the gesture *is* dropped, and the arm resumes the same inhibited dullness as the rest of the body. This physical style is a misunderstanding of classicism; it is tepid academicism, devoid of spirit.

Alas, the vocal style is precisely the same. The six actors have learnt more about iambic scansion than they have about real life. "There is no grief, no pain that matches mine" announces Creon, with perfect metre, as if admitting to the cast that he had parked their minibus on a double yellow line. One chap in the chorus bounces out "The thought occurs to us that this might be the wishes of the gods" with ping-pong efficiency.

In what is announced as a "visual" production of a Greek play, you look forward to the choral odes, which used to be the nadir of most English productions. But here, again, all is unspontaneously counted out, in speech and motion alike. A bit of folk dance; a bit of modern dance; one phrase to the left; one phrase to the right. All six actors join in, with all the stylishness of galley-slaves.

I especially admired the actress who carefully trailed a few of her long curly locks over her eyes when she was not playing solo roles; her resemblance to Michael Jackson in these passages was the production's most original effect.

INTERNATIONAL

Arts Guide

AMSTERDAM

CONCERTS
Concertgebouw
Tel: 31-20-675 4411
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Brahms, Mozart and R. Strauss. With piano soloist Stefan Vladar and soprano Inga Nielsen; Mar 21

BALTIMORE

OPERA
Baltimore Opera Company, Lyric Opera House
Tel: 1-410-625 1600
www.baltimoreopera.com
Carmen: by Bizet. Conducted by Alfredo Silipigni in a production directed by David Roth. The title role is sung by Irina Mishura; Mar 19, 21, 22

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Philippe Herreweghe in Bach's Passion. With soloists including Anne-Sofie von Otter and Matthias Goerne; Mar 17, 18

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Don Carlo: by Verdi: Co-production with the Grand Théâtre de Genève, conducted by Eliahu Inbal in a staging by Andrei Servan; Mar 19, 21

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Oliver Knussen in works by Stravinsky, Lieberson and Knussen. With soprano Lucy Shelton and horn soloist Gail Williams; Mar 17

DUBLIN

EXHIBITINS
Irish Museum of Modern Art
Tel: 353-1-612 9900
Andy Warhol: After the Party, Works 1956-1986. 100 works, drawn mainly from the Warhol Museum in Pittsburgh; ends on Sunday

FLORENCE

OPERA
Teatro Goldoni
Tel: 39-55-211158
www.maggiofiorentino.com
Orfeo: by Montiverdi. New staging by Luca Ronconi, to celebrate the reopening of the Teatro Goldoni. The conductor is René Jacobs; Mar 17, 18, 20, 21

FRANKFURT

CONCERTS
Frankfurt Oper
Tel: 49-69-21202
Rising Stars: mezzosoprano Xenia Meijer, pianist Hans Eijsackers and saxophonist Hubert Claessens of the Amsterdam Concertgebouw perform a programme including works by Purcell, Mozart, Brahms and Debussy; Mar 19

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by 18-year-old Mikko Franck; Mar 18, 20

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● Boston Symphony Orchestra: Seiji Ozawa conducts Mahler's Symphony No. 6; Mar 18
● Boston Symphony Orchestra: Seiji Ozawa conducts Mahler's Symphony No. 3; Mar 19

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
The Elixir of Love: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Lloyd; Mar 17

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Così fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis; Mar 17, 19, 20, 21

MADRID

CONCERTS
Auditorio Nacional
Tel: 34-1-337 0100
Elliott Carter 90th Birthday Celebrations: Pierre Boulez conducts the London Symphony Orchestra in works by Ravel, Carter, Stravinsky and Prokofiev; Mar 18

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Kiri Te Kanawa: recital by the soprano, accompanied by pianist Julian Reynolds; Mar 18

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Kovancina: by Mussorgski. Production from the Marlinsky Theatre of St. Petersburg conducted by Alexander Polinichka in a staging by Fedor Lopukhov; Mar 18

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-8755030
New York Philharmonic: conducted by Daniele Gatti in Mozart's Eine kleine Nachtmusik and Mahler's Symphony No. 5; Mar 18, 19, 20, 21

Carnegie Hall
Tel: 1-212-247 7800
www.carnegiehall.org
Russian National Orchestra: all-Russian programme conducted by Mikhail Pletnev. With violin soloist Gil Shaham; Mar 19

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Charles-Honoré Lannuier (1779-1819): around 50 pieces of furniture by the French cabinetmaker who left Paris for New York in 1803; from today until Jun 14

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Parmeggiani; Mar 17, 21

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
La Bohème: by Puccini. Conducted by George Manahan and staged by Graziella Sciutti; Mar 21

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Semyon Bychkov in Mahler's Symphony No. 2. With soprano Elisabeth Norberg-Schulz, mezzo-soprano Marjana Lipovsek, and Choir led by Arthur Oldham; Mar 18, 19, 21

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
● Budapest Festival Orchestra: conducted by Iván Fischer in works by Wagner and Liszt; Mar 17
● Boston Symphony Orchestra: conducted by Seiji Ozawa in Mahler's Symphony No. 6; Mar 20

ROTTERDAM

CONCERTS
de Doelen Hall
Tel: 31-10-217 1700
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Brahms, Mozart and R. Strauss. With piano soloist Stefan Vladar and soprano Inga Nielsen; Mar 18, 19, 20

VIENNA

EXHIBITIONS
Kunstforum der Bank Austria
Tel: 43-1-533 2266
From Monet to Picasso: display of 120 works, starting with French Impressionism and Pointillism, and ranging through the Russian avant-garde and German Modernism to 1945. Includes examples of cubism, constructivism, Expressionism and Surrealism; to Jun 28

FESTIVAL
Arnold Schoenberg Center
Tel: 43-1-712 1888
www.schoenberg.at
Schoenberg Festival: celebrating the opening of the new Center, the festival opened with a concert by the Vienna Philharmonic. A multimedia exhibition includes manuscripts and photographs. Other concerts include the Ensemble Wiener Collage conducted by René Staar (Mar 17); the Klangforum Wien conducted by Sylvain Cambreling (Mar 18), and a recital by Michael Boriskin (Mar 19)

WASHINGTON

CONCERTS
Kennedy Center
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Christopher Warren Green in works by Mozart and Haydn, with violin soloist Daniel Foster; Concert Hall; Mar 19, 20, 21

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Capital punishment

The emerging Washington consensus on the lessons from the Asian crisis is not wrong, but it is too limited

It is a good assumption that Alan Greenspan, chairman of the Federal Reserve, is always right. In academic brilliance, Larry Summers, deputy secretary of the US Treasury, surpasses Mr Greenspan. Yet even these luminaries can err. Lesser mortals may reasonably ask whether they have drawn the right conclusions from the Asian crisis. The answer is that the emerging "Washington consensus" that they epitomise is not so much wrong, as too limited.

In a speech at the International Monetary Fund last week, Mr Summers explained why trying to learn more is so important. "These past years," he said, "we have been laying the first foundations of a truly global economy. Trade, investment, capital, information and knowhow are flowing more freely than ever before to the places where they can be most effective in creating wealth. But events in Asia are a further reminder that *the tide of global integration* brings serious challenges in its wake.

"The potential is breathtaking," he continued. But "it will require a new network of policies and institutional arrangements to ensure that this potential is realised". The question is: what is this new network of policies and institutional arrangements to consist of?

The answer depends on how capital markets behave. An encouraging, but over-optimistic view is the one advanced by Mr Greenspan in a speech on March 3rd: the high-technology capital markets of today are efficient; this "exposes and punishes underlying economic imprudence swiftly and decisively". Among the most important requirements for them to work, he suggested, is more transparency.

What emerges from the Asian crisis is tragically different: when euphoric, markets ignore bad news; when depressed, they underplay good news. Either way, they overshoot wildly.

This is true, whichever of the two dominant stories about the crisis one is inclined to believe. One – told by Paul Krugman of the Massachusetts Institute of Technology – is of bad policies: over-guaranteed and under-regulated financial institutions that blew a bubble bound to burst.* The second – told by Jeffrey Sachs of the Harvard Institute for International Development – is of panic: financial markets that unnecessarily devastated sound economies.**

The first story suggests the Asians deserved their fate, even if the punishment was disproportionate to the crime. If so, *capital markets*, far from punishing imprudence swiftly and decisively, indulged it for years. In the process, they also ignored all the signs of Asian "crony capitalism" and of unsustainable capital inflows, both of which had long been quite obvious.

Prof Krugman's explanation for the market's mistakes is that investors thought themselves guaranteed. This is not that convincing: much of the investment went to private companies nobody can have supposed were safe; moreover, these countries could not have guaranteed foreign currency liabilities, even if they promised to do so.

Investors were not so stupid, says Prof Sachs. The trouble was that panic, albeit rational for each individual institution, turned a necessary, ideally quite modest, adjustment into a catastrophe. Moreover, the inflows had *exacerbated the economies'* underlying weaknesses. Large-scale inflows raised the real exchange rate, *created current account* deficits, lowered domestic interest rates and exacerbated overheating. In this view, inflows were a response to past triumphs – and transmuted them to disaster.

On these two explanations, markets either got things wrong – or *made them so*. The obvious conclusion is that managing openness to capital flows is a horribly tricky task. Yet, as Mr Summers argues, it would be a mistake to dispense with *flows altogether*. They can, in principle, improve the global allocation of resources and allow a greater international diversification of risks.

In fact, Mr Summers warns against slowing the pace of capital account liberalisation. Instead countries should create an environment in which capital will flow to its highest return use. What would such a regime then consist of?

His answers include: strengthening macro-economic fundamentals; eliminating incentives to inflow of the wrong sort of capital; opening the financial system to foreign financial service providers; introducing an improved supervisory and regulatory regime; eliminating inappropriate government guarantees; strengthening financial institutions; greater transparency; and minimising bail-outs.

This is a list of *what* needs to be done if the first of the two stories on the crisis is true. Even then, if countries *need to do all of this before* they can liberalise safely, it will take decades, not years.

Unfortunately, the second story also has great force. Short-term lending against long-term assets is subject to panic. In domestic finance the answer has long been a lender of last resort – an institution capable of providing needed liquidity.

Yet if a commercial bank in Thailand borrows dollars, no central bank will provide it with the currency it may need. Similarly, if Thailand as a country borrows dollars, there is no lender of last resort to assist it if creditors suddenly want their money back. The IMF lacks the resources needed to perform this role.

Suppose there will never be such a lender of last resort or the intrusive regulation of national policies the regime would entail. Potential borrowers must then protect themselves on their own. How to do so can be learned from the experience of those *Asian countries* that avoided the crisis and of successful economies elsewhere, notably Chile.

Here then are my seven rules for avoiding the dangers of panic:

- Try to avoid current account deficits that are both large and sustained, even if they can be readily financed.
- Keep foreign currency reserves, in the central bank or in the commercial banks, equal ideally to the country's short-term foreign currency liabilities.
- Impose tight prudential regulation of the foreign-currency liabilities and assets of banks.
- Operate either a floating exchange rate or a currency board. Do not make strong commitments to potentially adjustable pegs.
- Consider controlling or taxing short-term foreign currency borrowing, as has been done relatively successfully by Chile.
- Make the economy flexible enough to cope with sudden changes in the availability of capital.
- Create a bankruptcy regime capable of protecting companies from creditors.

Mr Summers likens the capital markets to a jet plane. "We can go where we want much more quickly, we can get there more comfortably, more cheaply and most of the time more safely – but the crashes when they occur are that much more spectacular".

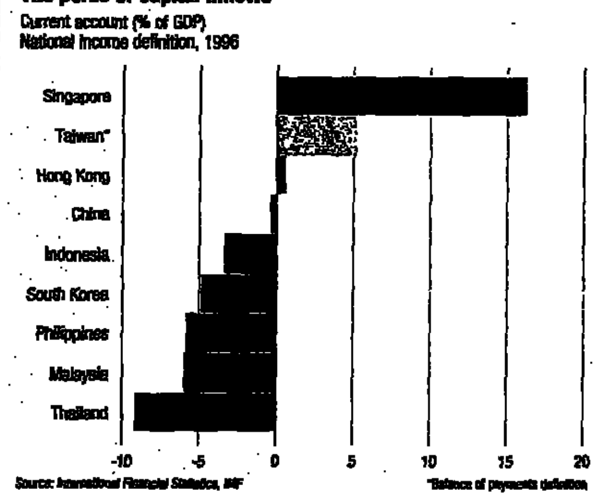
It is an arresting simile. But another obvious comparison is with the oceans. Sometimes, they are completely calm. But if one is trying to cross them in safety, one needs a sound boat. And even then, it might be overwhelmed if the waves are high enough.

* *Paul Krugman, Will Asia Bounce Back?, mimeo (see http://web.mit.edu/krugman/www.suisse)*

** *Steven Radelet and Jeffrey Sachs, The Onset of the East Asian Financial Crisis, Harvard Institute for International Development, 1998, mimeo*

E-mail: Martin.Wolf@FT.com

The perils of capital inflows
Current account (% of GDP)
National income definition, 1996



Source: International Financial Statistics, IMF; *Balance of payments definition

Too much focus pocus

The difference between old-style and modern conglomerates is less obvious than it looks, says **Tony Jackson**

Yesterday's news of disposals by the UK manufacturer BTR fitted an *unmistakeable pattern*. Last month it sold its bottle-making *business, now its* Australian building products. Last week Hanson sold its US crane company, and Williams its US building products. Britain's conglomerate dinosaurs, it seems, are *reaching* the boneyard.

Not all these companies got there by the same *route*. Hanson has chosen simply to *break itself* up. BTR and Williams have sought to re-invent themselves, the one as an engineer, the other as a security company. But the message seems the same: the conglomerate idea is history.

Well, perhaps. But what is taking its place? Who, in short, is doing the buying?

There are two categories. Williams' NuTone business and BTR's bottle operations are being sold to larger US specialists in their respective industries, Nortek and Owens-Illinois.

BTR's building products and Hanson's crane *business, however, are being* bought by venture capitalists: the former by the Europe-based CVC Capital *Partners, the latter by* Keystone of the US.

The first two cases might suggest the familiar contrast between diversity and focus. But there is a subtler distinction: between business managers and asset managers. Arguably, Hanson and BTR owed their downfall to getting the two mixed up.

Both companies claimed to bring a distinctive style of management to the companies they acquired. In reality, both worked by exploiting imperfections in the market for corporate assets. Hanson used the takeover mechanism to unlock undervalued assets. BTR used the change of control to push up product prices. The former tactic was doomed by the advent of shareholder power, the latter by the conquest of inflation.

Had the two companies grasped this, they would have sold their assets on as soon as their true value was apparent. Instead, Hanson at least held on until it became *clear that* as a business manager, it had little to contribute.

What of today's asset managers? Venture capital outfits such as CVC Capital, KKR, Clayton, Dubilier or Nomura International might appear to be the new conglomerates.

Certainly, they are not afraid of *crossing* industry boundaries. Nomura's London operation *owns pubs*, betting shops and housing estates, and recently tried to buy a power utility.

But those funds are in no danger of confusing their role with that of the business manager. Their chief function is to change the shape of balance sheets: to increase the burden of debt, using it to bludgeon managers into greater efficiency, while reserving equity as a carrot.

This is by no means a novel idea: in the US, especially, companies have been moving this way for well over a decade. But as with Hanson and BTR in the old *days*, the trick is to find businesses that have been slow to adapt to the *new* model, and turn a profit by bringing them up to *speed*. The difference is that the venture capitalists explicitly owe it to their investors to realise their profits as soon as possible.

When we turn the coin to look at business managers, it is simply untrue that conglomeration is a thing of the past. On both sides of the Atlantic, there are highly successful multi-business manufacturers such as Textron, GKN and AlliedSignal, which have exploited their diversity and breadth of managerial experience to outperform the equity markets in recent years.

For the true business conglomerate of the future, though, we need to look at the service sector. A conventional example is the UK group Rentokil, which started in pest control and has branched into laundry, personnel agencies, road transport, security and contract catering.

Less conventional are the conglomerate consultancies, such as Arthur Andersen, Price Waterhouse or EDS. Some of those run outsourcing contracts ranging from back office *accounting* to human resources and even purchasing. In the *UK alone*, EDS runs the IT function for bodies as diverse as Rolls-Royce aero engines and the Inland Revenue.

There is no reason to suppose this trend will halt. It is in the nature of business managers to seek growth, if not in their *current* business then elsewhere. And if, in time, some of *those* companies come to seem unwieldy dinosaurs in their turn, that will be no surprise either.

What of the future for asset managers? Again, there is no reason to expect the trend to halt. Portfolio funds still seem to be in glut, and the hunt for returns is correspondingly desperate.

At the same time, the business environment is in a process of continuous change. One would expect venture capitalists to respond to this more quickly, since they are more mobile and disinterested than most business managers *can hope to be*. Therefore there will be successive windows of opportunity for venture capitalists to clamber in.

One warning, though. Today's asset managers base their activities largely on one premise: that debt is good, and risk a thing of the past.

One sharp burst of inflation and high interest rates, and an awful lot of corporate assets will be back on the *market at fire sale prices*. And with hindsight, of course, today's venture funds will look as short-sighted as Hanson and BTR ever did.

LETTERS TO THE EDITOR

Better credit allocation is key to averting further Asia crisis

From Ms Philippa Malmgren.

Sir, Lawrence Summers, in his Personal View (March 11), will help quiet those who want to implement capital controls in order to prevent another Asian crisis in future.

However, his recommendations will by themselves do little to prevent a recurrence of another crisis. Greater regulatory supervision, transparency, generally *accepted accounting principles* and reliable bankruptcy *procedures, as Mr Summers* advocates, are all laudable. *But they* are not enough.

The problem is deeper. The problem is the credit allocation mechanism. Loans in Asia are typically made for only one of two reasons. Either property is used as collateral, or loans are made based on relationships. Relationships include cross-shareholdings and cross-guarantees of subsidiaries, overseas Chinese networks and family relationships. What Asia lacks is a class of lending officers who have the skills to assess the ability to repay.

Some Asian friends protest, pointing out that Asia has business school graduates *too, although not many*. Sadly, those with these skills *are not given the authority* to make decisions.

The best efforts to improve the accounting systems will prove fruitless unless credit is allocated for the right reasons.

It is in the best interests of *the local investors that they* change the credit allocation mechanism. That way they can have real confidence in the value of their assets. But no country can create a proper credit allocation mechanism overnight. The Asians will need blueprints. Mr Summers can call for liberalisation all he likes but it is very likely that *the Asians* will need help understanding exactly what *they must* do. That is where we need Mr *Summers to focus* his attention going forward.

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Quality not quantity is the answer

From Mr Angus G. MacLennan.

Sir, In your leader, "The trouble with global finance" (March 6), you cite a potential solution to "the *trouble* with global finance" being "substantially *to raise* capital ratios ... to give banks a *bigger* capital cushion".

It is not so much an absolute increase in capital which is required but an urgent need to introduce differentiation in the amount of capital allowed to different qualities of asset.

When banks need five times more capital *to lend to* Marks and Spencer than to European banks and a *significant* amount less to trade in exotic options *it is clear* that the Bank for International *Settlements needs* to address this issue without delay.

In so doing banks which opt to engage in more risky activities will have a need for more capital to cope with *the* greater probability of loss and more prudent banks will not be penalised for the folly of others.

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A process of uniting, not reuniting Europe

From Mr Stanley Crossick.

Sir, Philip Stephens ("A price to be paid", March 13) graphically described the meanness of the approach of western European leaders to EU enlargement eastwards. How fortunate we were that George Marshall and the other early postwar American leaders adopted a different approach towards western Europe.

May I, however, correct two points in his excellent piece? First, there is no "chorus" demanding that the "rules must be rewritten to preserve the influence of the club's founding members". The institutional reform required to help make the enlarged Union work effectively – such as minimising the need for unanimous voting in Council, *population*-weighted voting in Council and reducing the number of commissioners – will decrease the influence of all smaller member states, including the Benelux countries.

Second, enlargement is not about "reuniting Europe" but about uniting a Europe *which millions of Europeans* know has never been united.

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More modest global competition regime is realistic expectation

From Mr Anton van der Lande.

Sir, Joel Klein's Personal View (February 13) that it would be premature for the World Trade Organisation to seek to enforce global competition rules misses the point.

Thinking has moved on. No one today is seriously suggesting that the *130-odd* members of the WTO sit down and negotiate a substantive set of international competition rules.

What is being sought is far more modest and has far greater *benefits* for businesses trying to compete internationally – namely a broad WTO agreement comprising commitments by all WTO members to enact effective domestic legislation covering monopolies and mergers and the setting up of an effective domestic competition authority.

This would represent a vast improvement over the current *state* of affairs where, as Mr Klein acknowledges, roughly half of all WTO members have no competition laws and many of those that do have ineffective competition law enforcement.

This framework of competition rules could be backed up by WTO dispute settlement. This would continue to be *intergovernmental* only and would be applicable *for failure* to enact such domestic competition legislation or for failure to enforce domestic competition laws. Such a framework would undoubtedly contribute to the development of an international *culture* of sound antitrust enforcement, as advocated by the US.

Mr Klein's personal position is even more difficult to understand when seen in the light of the recent Kodak-Fuji case where Kodak would probably have benefited from such a competition framework.

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Slow rise of Le Pen

A government which makes sweeping gains in mid-term local elections is entitled to feel pleased. But Lionel Jospin and his colleagues can allow themselves only muted celebrations after Sunday's first ballot of regional elections in France.

True, the result shows them ahead of the conservative opposition, with 40 per cent of votes cast against 36, and they are practically guaranteed control of more than half France's regions. But polls had shown them even further ahead, and the record low turn-out of 58 per cent is hardly a rousing vote of confidence for Mr Jospin's red-green coalition. Indeed, abstentionist and fringe party supporters together make up nearly 60 per cent of the electorate, easily outnumbering those who voted for mainstream parties (and that is counting the communists, who hold several posts in Mr Jospin's government, as a mainstream party).

Among fringe parties, the far-right National Front is easily strongest, with 15¼ per cent of votes cast. It is creeping up towards the sort of score the communists used to win between 1958 and 1978, when it was said that "the left cannot win without the communists, and it cannot win with them".

Many conservatives wonder if they can ever win again without the National Front. Some are tempted to try and win with it in next Sunday's run-off ballot, though Philippe Séguin, the Gaullist leader, has promised to expel any of his followers who succumb to that temptation. He is rightly convinced that an alliance with the anti-immigrant campaigner Jean-Marie Le Pen would be self-defeating as well as immoral, since it would frighten moderate and liberal voters into Mr Jospin's camp.

In Italy, the far right under Gianfranco Fini, having disclaimed its fascist past, is now accepted as part of the mainstream. But the same cannot happen to France's National Front as long as Mr Le Pen is in charge. Any restructuring of the French right will take as long as that of the left did before 1981.

That might not matter if it meant that the left would feel emboldened to abandon their residual *dirigisme* and set about freeing the French private sector to profit from the recovery and compete effectively in the new price-transparent European market which a single currency should soon deliver. That would facilitate job creation and so undercut the appeal of Mr Le Pen and other populists.

Unhappily, the success of extremist rivals will more likely make the government even more timid in its attempts at reform, exposing France to the risk of a jobless recovery for which the euro will be widely blamed.

Greece and Emu

The entry of the drachma into the European exchange rate mechanism at the weekend brought Greece one step closer to its hope of entering Emu. But, unless it is prepared to make major reforms to its public sector, Greece should not join.

The past few years have seen the Greek economy transformed. Inflation has fallen from a peak of nearly 25 per cent in 1990 to 4.3 per cent. The budget deficit, 14 per cent of gross domestic product in 1993, is targeted to fall to 2.4 per cent this year. Greece now looks well on track to meeting the Maastricht criteria, with the exception of the debt/GDP ratio condition, which is being loosely interpreted in any case.

But although the economy is strong, its structure is in need of radical change. More than 50 per cent of the Greek economy is still nationalised, a greater proportion than in Poland and Hungary. Much of this state-owned sector is inefficient, and only survives because of continued subsidies. That creates immense spending pressures, making it very hard for Greece to keep its budget deficit under control.

It is possible that Greece will muddle through the next few years without serious reform of its state-owned sector. It could keep a lid on the budget deficit, and perhaps be allowed to join Emu. But if it joined under these circumstances, it could quickly find its public finances under even greater pressure. Emu would bring intense competition, which Greece's inefficient state-owned industries would be very hard-pressed to cope with. These pressures are emerging even now: Olympic Airways, the state airline, is facing heavy losses after it was forced to open up routes to competition.

If Greece is serious about Emu, it must get serious about restructuring its public sector. The Prime Minister, Costas Simitis, understands the need for reform, and made pledges to cut public spending and speed privatisation as part of ERM entry. But privatisation is still taking place at too slow a pace, with the government prepared to sell only 49 per cent of most businesses.

Politically, reform will not be easy. The supporters of the interventionist policies of the late Andreas Papandreou still have considerable political clout. And, although Emu has the support of the public at present, that could evaporate once the pain of fiscal consolidation is felt in wage restraint and job losses.

Greece must be applauded for the success of its macroeconomic management. But a lot of the hard work is yet to come. Mr Simitis must keep his nerve and accelerate his reforms. The reward will be worth it.

Ill-prepared for battle

Republicans are divided about whether they can use President Bill Clinton's scandals to their electoral advantage, says Gerard Baker

By publicly accusing Bill Clinton, the US president, of molesting her in the White House, Kathleen Willey has raised the stakes for all sides in the continuing investigation of the president's alleged sexual and legal improprieties. For the president, the charge is yet another in a list, this time with extra accusations about a cover-up. For Kenneth Starr, the independent prosecutor investigating the claims, it could bring a legal case closer. But the biggest impact, paradoxically, could be on Mr Clinton's Republican opponents. Such a case would pose a dilemma for them: should they press ahead with an impeachment charge if the evidence was strong enough? Or should they pedal away from it if it proves, as now, politically unpopular?

In her explosive television interview on Sunday, Ms Willey repeated in public the allegations she made last week to a grand jury investigating claims that the president lied under oath about his past liaisons and persuaded others to do the same. Mr Clinton vigorously denied the accusations yesterday, and White House officials pointed to inconsistencies in Ms Willey's account and behaviour. But her accusations that the president aggressively fondled her in a private study off the Oval office follow the reports of an affair and subsequent cover-up involving Mr Clinton and Monica Lewinsky, a young White House official, that have engulfed the administration.

The political fallout from the latest allegations is still uncertain. But the evidence from the Lewinsky affair is that Americans are in no mood to condemn their president over allegations they regard as unsubstantiated, trivial and politically motivated. Within a few days of the Lewinsky affair becoming public, Mr Clinton's popularity ratings soared. Since then, he has remained more popular than he had been throughout his presidency, helped by a strong economy and a national sense of well-being. Ms Willey's accusations do not seem to have changed that.

In fact, the main effect of the Willey accusations may be to sharpen an especially difficult dilemma for Mr Clinton's political opponents. Republicans in Congress, who have been mostly unwilling to attack the president in light of his continued popularity, will come under greater pressure than ever from their own supporters to go on the offensive.

This pressure will become greater still, if as many in Congress think likely, Mr Starr concludes, perhaps within a matter of weeks, that the president does indeed have a criminal case to answer.

But any decision to prosecute will be a political one: impeachment can only be conducted by Congress. Hence the Republican dilemma: to press ahead with impeachment, risks enraging a public that is mostly very satisfied with its president, and sees the allegations against him as either trivial or politically motivated. But to drop the case, risk alienating their own core supporters. This dilemma is the more awkward because it is not merely a matter of personalities: it has policy implications too.

Mr Clinton's popularity is transforming, for the time being at least, the American political landscape. It has coincided with a born-again re-conversion to traditional Democratic social policies. Democrats are therefore hoping, against the odds, for some kind of revival in this year's congressional elections. Republicans' ambitions of seizing control of the domestic political agenda appear to have been frustrated.

"If Ken Starr were found tomorrow in boots of cement at the bottom of the Potomac, the likeliest suspects would not be found in the White House, but among the Republican leadership," says one pollster.

But federal investigators on a mission to prosecute need no electoral validation for their efforts. In the last week it has become increasingly clear that Mr Starr's investigation is entering a new phase of intensity that looks likely to be its denouement.

For all the apparent popular distaste for the inquiry, members of Mr Starr's team believe they have at least a circumstantial case against Mr Clinton. Ms Willey's charges can only add to their confidence.

Events could move quickly in the next few weeks. Having watched as a trail of witnesses have appeared before a grand jury, the White House is now considering a request from Mr Starr for the president to appear himself. At the same time, Mr Starr looks ready to place Ms Lewinsky before the grand jury. The appearance of the two star witnesses should move the case quickly into its final stages.

That case still rests essentially on the allegation that Mr Clinton, either directly or indirectly offered inducements to Ms Lewinsky and Ms Willey, to lie to lawyers pursuing a sexual harassment claim against the president on behalf of a third woman, Paula Jones.

In Ms Lewinsky's case, the circumstantial evidence of some kind of quid pro quo for her silence is suggestive. Having been instructed to appear before the lawyers for Ms Jones in early December, the White House intern was referred to one of Mr Clinton's closest confidants, Vernon Jordan, who within days had arranged job interviews for her at several large companies of which he was a board member.

Having failed to secure one of the posts, according to various published newspaper reports, she went again to the White House at the end of December. In early January she signed an affidavit in which she denied having had an affair with Mr Clinton. Within days she was offered a job by one of Mr Jordan's companies, Revlon, the cosmetics company.

An impeachment battle with a popular president is not what Republicans want

Ms Willey's accusations are potentially more damning, but may be harder to prove. Unlike the Lewinsky case, the alleged incident only happened once. But Ms Willey also claims efforts were made to hush her up through a wealthy Democratic party fundraiser.

If Mr Starr can provide the evidence to support these claims, he is bound by law to present it, with a recommendation for action to the congressional leadership.

With important mid-term congressional elections to be held in November, a high risk impeachment battle with a popular president is the last thing many Republicans want. Before the Lewinsky affair broke, they had been confidently expecting to retain control of the House and the Senate. Indeed if the usual pattern of mid-term elections were to repeat itself – in which the party not in control of the White House does well in Congress – they could have expected to strengthen their hold on the legislature.

But with impeachment proceedings underway, all that could change quickly. The decision would turn the next six months into a single-issue election campaign: should Mr Clinton be impeached? If, as seems possible, American voters continued to believe the case is in some senses a partisan act by Republicans, they could hit the party hard in the elections.

Faced with that prospect, many senior Republicans are now anxious to avoid trying to impeach the president on anything other than dramatically stronger evidence of serious presidential crimes. They would prefer to have the Starr investigation over quickly and out of the reckoning in this year's election debates.

Last weekend, Trent Lott, the party's leader in the Senate, gave a strong hint that this was the favoured approach of many of his colleagues in the leadership when he urged Mr Starr to bring his investigation to a speedy conclusion. He even suggested the Congress might dispose of the thorny issue (if it had to) by giving the president a slap on the wrist – a politically meaningless formal censure – and moving on.

"He's had enough time, and it's time to show his cards," he said. "He needs to wrap it up, show us what he's got."

The response from the rest of his own party, however, showed that a light reprimand would not be acceptable to most Republicans. A number of conservatives angrily accused the Senate leader of going soft on the president. And in a carefully aimed rebuke, Newt Gingrich, the House Speaker, responded by praising Mr Starr's efforts and urging him to continue on at his own pace.

And at the weekend, several of the party's leading contenders for the presidential nomination in 2000 made it plain that they want the Republicans to go on the offensive over the president's alleged misdemeanours.

A good example was Dan Quayle, the former vice-president who is already running for president with the backing of the party's conservative wing. "We have to do what is right for the country," he said. "If Ken Star submits a statement that says that he has reason to believe that perjury, obstruction of justice or subornation of perjury was committed, the Republicans will go forward with impeachment hearings."

The growing battle demonstrates the potential the issue has to damage the Republican party by widening the gap between the various disparate interests the party comprises. In some areas, especially in the south and west, the party is still as aggressively conservative as it was at the time of the "Republican revolution" in 1994.

The Lewsinky and Willey matters have given them a chance to re-emphasise that their message of traditional religious and moral values in the context of social and economic conservatism is a popular one. They want the party's leadership to be more aggressive in attacking Mr Clinton as much for his alleged moral failings as for his political wrongs. Most ordinary members of the House of Representatives associate themselves with this view.

But the leadership, especially in the Senate, is busy trying to take the party back to a more moderate track. Party elders such as Mr Lott believe the public pillorying of the president would prove counter-productive.

The risk now is that Mr Starr will hand the conservatives their most powerful weapon yet against a president they loathe. If the party's leaders choose to put it aside, they risk opening the party's wounds wider than ever.

Honesty box

Politicians who buy popularity with excessive borrowing are seldom around when the IOU's fall due. And their successors can quietly renege on the debts by allowing them to be eroded by inflation. Gordon Brown promised before he became the UK chancellor that he would put aside all such temptations. In the past such promises were too often broken.

Yesterday Mr Brown proposed a new code intended to guarantee fiscal responsibility, when it becomes law. It will oblige the Treasury to publish a 10-year projection for the public finances and require the chancellor to explain how each Budget fits into it, starting next year.

The idea is not entirely new. Margaret Thatcher's government published a five-year medium-term financial strategy in 1980. Nigel Lawson, architect of the policy, wrote at the time: "The overriding need is for a long-term stabilisation programme to defeat inflation, recreate business confidence and provide a favourable climate for economic growth."

Mr Brown used some of the same words yesterday. The danger of rampant inflation has receded, so his emphasis is more on openness and accountability. He wants to kill off for ever the idea that Labour governments are prodigal. He may also be taking out an insurance policy against his party's backbenchers who will want him to increase public spending at the first sign of a surplus.

These are sensible aims, especially if Mr Brown hopes eventually to join the European monetary union. Within Emu the government would need to balance its budget over a complete economic cycle. The obligation, under the Emu stability pact, would be a little tighter than Mr Brown's "golden rule" that borrowing should not exceed public investment. This implies a deficit of around 1.5 per cent of GDP in the present cycle.

In practice the difference might not be large. What matters within Emu is that governments should have the ability to use fiscal policy to offset economic shocks to their country or region, without steadily increasing the national debt. In favourable times, therefore, they must build up a surplus, which could be spent to head off the danger of a local recession.

Mr Brown's code appears to be a credible framework for such a purpose. It will allow the government to depart from its 10-year plan, but require it to say why, and to explain how and when it will return to the path of fiscal virtue. This is easier to specify than to achieve. Moreover, an explicit promise of annual reviews of past performance would have been welcome. That said, the fiscal code, like the promise to explain debt management and to consult on budgets, is a welcome step towards openness. It might even lead chancellors out of temptation and deliver taxpayers from the evils of debt.

OBSERVER

All change on Nob Hill

For half a century, the Swig family has lorded it over San Francisco from the swanky 600-room Fairmont Hotel on Nob Hill. Not any more.

The family is San Francisco "old money" – descended from Simon Swig, a Lithuanian who arrived in the US penniless aged 13 and built a banking business. Local legend has it that, on a three-day trip to San Francisco in 1945, his son Benjamin bought a hotel, turned a fast profit and bought the Fairmont.

Now the family is cashing in its half share in the 91-year-old Bay City landmark and the Fairmont hotels in Dallas and New Orleans, selling out to hotel investment outfit Maritz, Wolff and Co of Los Angeles and St Louis. No one's talking numbers, but estimates suggest that they'll walk away with $200m.

There was much talk of expansion four years ago when billionaire Prince Al-Waleed Bin Talal Bin Abdulaziz Al-Saud of Saudi Arabia bought a half share in the group – the Swig company talked about having 30 hotels within 10 years. There has been little sign of that happening, and there have been rumblings of disagreement between the partners.

The death last September of Richard Lewis Swig, son of Benjamin and chairman of Fairmont Hotel Mangement marked the end of the family's direct involvement in running the business. Around that time, hungry Hong Kong property group Great Eagle planned to buy the family share and team up with the prince, but it all fell apart in December.

The Swigs aren't checking out of *hotels altogether: they're keeping a* minority holding in the Fairmont hotels in San Jose and Chicago. Just somewhere to hang their hats.

Ballot point

Voting against the official line in China's parliament used to be risky – like being the first to stop clapping after one of Joe Stalin's speeches. So it was a bit of a shock when 326 delegates refused to back Li Peng as head of the National People's congress – 200 went as far as to vote against him.

It might have something to do with the end of the old hands-up system of voting on the installation of an electronic, push-button system last year, though in a country where bugging and phone tapping are considered routine, many doubt that votes really are secret.

Suspicion runs so deep in China that many read assurances of anonymity in official newspapers as a veiled warning that the electronic system may actually enhance surveillance of delegates' loyalties.

Overturned

Those old sparring partners Volkswagen and General Motors' German subsidiary Opel have buried another hatchet.

The latest row started at the Geneva Motor Show when Ferdinand Piëch, the icy VW chairman, said a driver at a private Opel event had subjected a new-generation Golf to a high-speed "elk test" – and it had turned over.

VW was unhappy about what it saw as an attempt to embarrass the company. The issue is super-sensitive in Germany after Mercedes-Benz's stubby new A Class landed on its head doing the now notorious lane-change manoeuvre last October.

Opel's first response was understandably robust. It noted that tests – on neutral ground – were regularly conducted to prepare dealers for discussing competitors' products. In any case, the only person to draw attention to the whole affair had been Piëch himself.

But yesterday, in a letter to Piëch, Opel chairman David Herman apologised for the exercise, which he says wasn't approved by executives. Almost as fast a *volte-face* as a jalopy meeting an elk.

Brief encounter

It's a couple of hundred years since George Allen set sail from the UK for Australia. Now the law firm he founded wants bright young Poms to follow in his footsteps. Allen Allen & Hemsley, one of Australia's biggest practices, is trying to tempt Brit solicitors with promises of sun, sea, surf and Sydney.

Allen's partner Peter Jones says the timing is no coincidence: the firm is pitching "at the end of a long British winter and before the sun shines too much".

While a beer-and-barbie lifestyle is part of the attraction, finding good solicitors is a serious business. Booming financial markets have led to a worldwide shortage of corporate *finance lawyers, says Jones.*

To make matters worse, London's big firms have a habit of swooping into Sydney and plucking fledgling legal-eagles from their nests. Some – like World Bank boss James Wolfensohn, an Allen Allen & Hemsley old boy – go on to stretch their wings on the world stage.

A bridge too far

It's no way to treat Europe's longest bridge. The official opening of Lisbon's Vasco da Gama bridge on March 29 looks like being upstaged by a publicity stunt. This weekend, 15,000 citizens will sit down along 5km of tables to eat 8.3 tonnes of bean stew – in a commercial for washing-up liquid.

Procter & Gamble talked Lusoponte, the consortium which built the $1bn bridge, into allowing the stunt to go ahead. The whole thing hangs on getting all the 15,000 dishes clean and shiny with just one litre of detergent. Let's hope they don't break too many.

Wild bank

A fresh insight into the European Central Bank comes from Credit Suisse First Boston's economic research department. "A clear effort is made to qualify the ECB as having a feral structure," says the latest CSFB Euro-11 weekly. Watch out: monetary policy bites!

The Financial Times

100 years ago

Spanish Financial Problems
Madrid, 15th March. The facility with which Spain has supported the heavy burden of the insurrection in Cuba and the Philippines is made the subject of remark in the financial Press, which points out that although during the last five months the cost of the war exceeded 300,000,000 pesetas, the note circulation of the Bank of Spain has increased only by a small measure. It is asserted here that no one doubts that if a fresh loan were required it could be raised as easily as the one contracted a year ago.

50 years ago

Financing Indian Industry
The Industrial Finance Corporation, which is intended to carry out the function of supplementing "existing facilities available for the supply of medium and long-term capital" to Indian industry, has recently been established in India by legislation. The Corporation, with an authorised capital of Rs 100 millions, will grant secured loans to industrial concerns subject to a maximum limit of Rs 5 millions on any one loan. This will be available only to public limited companies and co-operative societies.

FINANCIAL TIMES
TUESDAY MARCH 17 1998

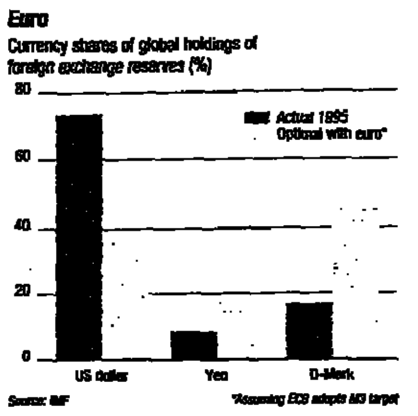
THE LEX COLUMN

Greek gifts

Greece's signal that it intends to join European economic and monetary union in 2001 has heightened debate over what sort of currency the euro will be. The tough men of Europe's central banks will surely want to be associated with a hard currency. If so, they are going about it in a curious way. The petty scuffle over who will run the European central bank is hardly a recipe for euro-enthusiasm. If they cannot work out who is in charge, how will they run the place? Moreover, talk of a "soft euro" has been further bolstered by the view that the fall-out from the Asian crisis may actually allow *lower* European interest rates.

In the transition to the euro, these factors may well hold sway, *albeit offset by* possible dollar weakness as 1999 draws closer. Longer term, though, the fundamentals point the other way: the EU is currently running a healthy current account surplus and has an excellent inflation record. In relation to the EU's importance as a trading bloc, the euro will also be extremely under-represented as a unit of account. This will surely change. The growth of Europe's capital markets will also create added demand for euros. As the market switches to greater use of the euro, central banks will follow suit and increase the portion they hold in their reserves.

These fundamentals will not feed through to the market immediately. The ECB will need to earn its spurs before investors become fully comfortable with the euro. This will not be easy, given the novelty of applying a single monetary policy to a widely different group of economies. Agreeing a leader would be a start.



with returns of 12-15 per cent in Japan, Germany and the UK. Such "remarkable returns", as Mr Buffett calls them, might well justify the market's 1998 price/earnings ratio of 25 times. But only if they are both real and sustainable.

Probably, they are neither. The OECD figures, which do not take full account of replacement costs or intangible assets, are almost certainly too high, which points to lower valuations. And with returns this good, fresh investment should pour in until they drop back to the 10 per cent cost of equity over the long term. This is indeed happening: US business investment rose 12 per cent last year and foreign direct investment is increasing too. On top of that comes the impact of a stronger dollar and Asia's slowdown. Whether the market crashes or not, Warren Buffett will be able to say "I told you so" in a year's time.

US equities

Has Warren Buffett become a defender of the boom in US equities? Traditionally, Omaha's famous investor relishes sounding a contrarian note or two in his report to Berkshire Hathaway shareholders. But this year he says that "there is no reason to think of stocks as generally overvalued" – as long as interest rates stay this low and returns on equity this high.

While interest rates are expected to stay low, the second caveat is worth examining. According to the latest Organisation for Economic Co-operation and Development figures, US companies' average return on capital is 29 per cent, compared

Executive options

Oracle, Novell and Netscape Communications have much in common. All are high-technology companies that have seen their shares slide and reacted by repricing their employee stock options. Oracle adjusted a fifth of its options down to market value after December's profit warning knocked the shares from $32 to $22, citing the need to hang on to employees in a competitive market.

That looks indefensible. Repricing destroys the point of stock options as an incentive. If they are automatically lowered when share prices fall, they become simply another element of guaranteed pay. Worse, they actually reward volatility. At Oracle, holders of the repriced options are already sitting on a 35 per cent gain as the shares have recovered. And by re-issuing options at a lower price, the company is further diluting outside investors, at a time when the overhang of unexercised options in many high-tech stocks is already 20 per cent or more.

The US addiction to options is overdone. They can be a proper tool for motivating top executives who directly influence the share price. Lower down an organisation, other performance incentives are more appropriate. Companies like options because *they are tax efficient and do not* appear in the profit and loss account. But that does not make them free.

UK fiscal policy

The UK has such a history of fiscal irresponsibility that any move to clip ministers' freedom to borrow is welcome. So two cheers for *Gordon Brown's code for* fiscal stability. The reason for withholding the third cheer is that the code still leaves chancellors too many loopholes through which to wriggle.

Take, for a start, the government's fiscal objectives: no borrowing except to finance investment and keeping debt at a "prudent" proportion of national income over the economic cycle. Publishing cyclically-adjusted figures will certainly help observers spot whether these objectives are being met. But it will not be possible to pin the *chancellor down unless he also* spells out what he means by prudent and commits himself not to change his accounting practices.

Another niggle is that it is unclear how the new long-term projections are to interface with these objectives. What if Mr Brown produces a forecast showing imprudent debt levels 10 years hence? Will he then have to explain himself? Or is he only in the hot seat if the most recent figure is out of kilter? Limiting accountability to actual performance dilutes the *admirable focus on the long* term – which incidentally ought to be defined as at least 20 years (not 10) if the government is serious about future generations. Mr Brown seems to think human beings breed uncommonly rapidly.

To get the most out of the new code, the Commons Treasury Committee will have to press Mr Brown to fill in the gaps.

Japan appoints outsider to head central bank

By Paul Abrahams in Tokyo

The Japanese government has broken with tradition and appointed an outsider as governor of the scandal-shocked Bank of Japan.

The swift appointment of Masaru Hayami, a former president of Nissho Iwai, one of Japan's largest trading companies, underlines prime minister Ryutaro Hashimoto's determination to clean up the bank, which has been mired by corruption allegations.

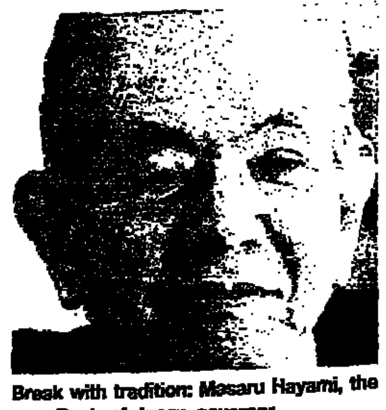
Mr Hayami indicated he would focus his energies on restoring confidence in the scandal-tainted central bank. "It is important to increase transparency and brighten the mood inside the central bank," he said from his Tokyo home last night.

Yasuo Matsushita, the current governor, offered his resignation last week after a senior BoJ official was arrested on charges of exchanging market sensitive information for lavish entertainment. It was the first time a senior BoJ official had been arrested in the bank's 116-year history. Mr Hashimoto initially refused Mr Matsushita's offer.

BoJ governors have traditionally been picked from serving bureaucrats at the ministry of finance or from within the bank. Although Mr Hayami worked at the central bank between 1947 and 1978, his confirmation *at a cabinet meeting on Friday* will still come as a blow to the BoJ's prestige.

Mr Hashimoto was concerned that an appointment from the BoJ or the equally tarnished ministry of finance would provoke a hostile public reaction.

Mr Hayami, 72, rose to become executive director for international affairs at the BoJ before leaving for a career in the private sector.


Break with tradition: Masaru Hayami, the new Bank of Japan governor

After a spell at Nissho Iwai he became chairman of the Japan Association of *Corporate* Executives (Doyukai), one of the four most important big business lobbying groups.

Mr Hayami *has* campaigned vocally for further deregulation and a halt to government efforts to support the stock market. He opposes donations by *businesses* to political parties and has publicly criticised US economic policy.

He is a fluent English-speaker, having spent time in New York and London while with the BoJ. In the early 1990s he *castigated* President Bill Clinton for complaining about the yen's appreciation.

In a recent interview, Mr Hayami said one of the priority items for financial deregulation was the development of a market for short-term government securities.

Mr Hashimoto's decision is a blow to Toshihiko Fukui, *BoJ deputy* chairman, who had been tipped for the top post. *He will be replaced by* Sakuya Fujiwara, a former journalist and severe *critic* of the BoJ and ministry of finance.

Mr Fujiwara is the author of a book entitled *The True Faces of Bank of Japan Governors.*

Financial turmoil hid Mexican drug cartel's purchase of bank

By Leslie Crawford in Mexico City

Mexican drug traffickers took advantage of the country's financial turmoil and lax regulation in 1995 and 1996 to buy a small domestic bank, government officials confirmed yesterday.

It is the first admission that drug cartels succeeded in infiltrating Mexico's weak banking system.

Banking supervisors said the attorney-general's office was investigating the links between Grupo Financiero Anáhuac and the Juárez Cartel, the most powerful criminal organisation in Mexico. To date, however, no arrest warrants *have* been issued in connection with the *case.*

The real owners of Anáhuac, which obtained its banking licence from the finance ministry in April 1995, were uncovered only after regulators detected fraud at the bank 19 months later.

After Anáhuac was placed under central bank intervention, banking supervisors discovered front men for the *Juárez Cartel had bought a con*trolling stake in the bank.

"*Anáhuac never reported, or* sought authorisation, for its new shareholders," said Luis Felipe González, an official at the National Banking and Securities Commission. "This was an operation that went beyond money laundering. It was an attempt to take over a bank."

Mr González said: "No banking system in the world is immune to infiltration by drug money." But he dismissed fears, often voiced by US anti-narcotics agents, that Mexican banks became *particularly* vulnerable to drug cartels during the near-*collapse of the financial system in* 1995.

The devaluation of the peso, triple-digit interest rates and an avalanche of loan defaults wiped out the capital of most Mexican banks and unleashed a scramble for new equity partners. A dozen banks buckled under *the weight of loan defaults* and were placed under central bank *intervention.* Despite the growing power of Mexican drug cartels – US authorities believe they control one-third of the $50bn market for illegal drugs in the US – it was only in May 1997 that Mexico introduced laws to detect and combat money laundering.

Since then, banks have been obliged to submit quarterly reports on "suspicious transactions" to the National Banking and Securities Commission.

However, banking officials admit drug cartels can still exploit loopholes in the new regulation, particularly because foreign exchange houses are not subject to the same reporting requirements as banks.

Banking officials said the controlling stake in Anáhuac was held by a foreign exchange bureau in Ciudad Juárez, on the US border, widely believed to be a front for the Juárez cartel.

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Egyptian foreign minister Amr Moussa (left) and British foreign secretary Robin Cook face the press in Cairo. *Report, Page 9*

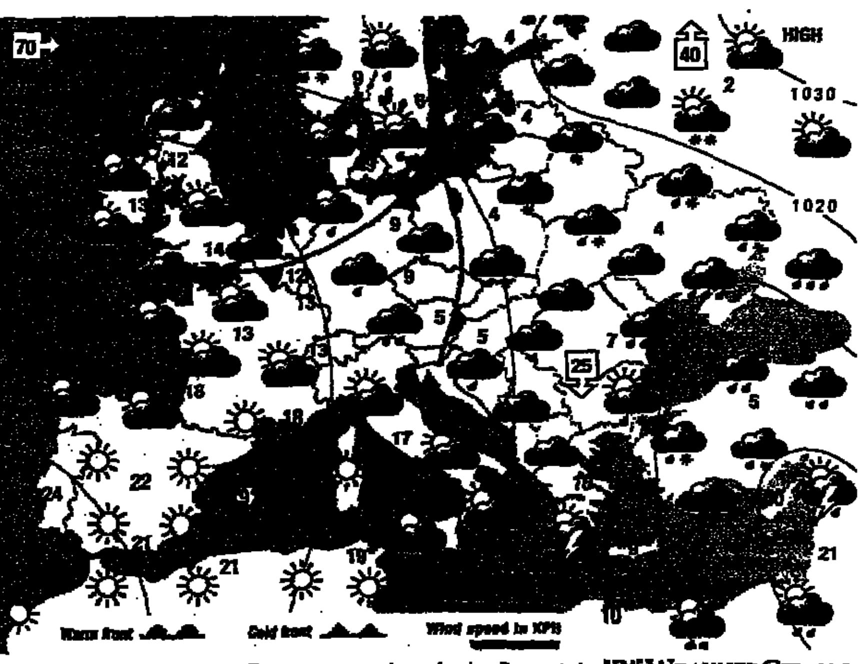
FT WEATHER GUIDE

Europe today

The central Mediterranean, Spain, *Portugal and the southern half of* France will be fine and sunny. It will be warm in most places, and the southern interior of Spain will be quite hot. The eastern Mediterranean will have cold winds, heavy showers and local thundery downpours. North-west Europe will be mostly dry and mild, *but central and eastern Europe will* be cloudy with rain and sleet. *Scandinavia will be unsettled,* although areas to the east of mountains, such as Oslo, should have a bright day.

Five-day forecast

Scandinavia will turn colder *tomorrow, with wintry showers as* far south as northern Denmark. The *rest* of the week will be bright but cold, with a few snow showers and severe night frosts. Central and eastern Europe will turn colder from Thursday onwards, but western Europe will be dry and mild.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Cloudy	32
Accra	Fair	31
Algiers	Sun	21
Amsterdam	Shower	11
Athens	Thunder	10
Atlanta	Rain	16
B. Aires	Shower	24
B.ham	Fair	13
Bangkok	Fair	36
Barcelona	Sun	19
Beijing	Fair	17
Belfast	Fair	12
Belgrade	Fair	6
Berlin	Rain	9
Bermuda	Fair	16
Bogota	Cloudy	18
Bombay	Sun	30
Brussels	Rain	12
Budapest	Shower	5
C.hagen	Fair	9
Cairo	Shower	18
Caracas	Fair	29
Cardiff	Fair	11
Casablanca	Sun	21
Chicago	Shower	8
Cologne	Shower	13
Dakar	Fair	24
Dallas	Cloudy	23
Delhi	Fair	26
Dubai	Sun	29
Dublin	Fair	13
Dubrovnik	Fair	12
Edinburgh	Fair	12
Faro	Sun	20
Frankfurt	Drizzl	13
Geneva	Fair	13
Gibraltar	Sun	20
Glasgow	Fair	12
Hamburg	Rain	11
Helsinki	Cloudy	4
Hong Kong	Fair	20
Honolulu	Fair	27
Istanbul	Shower	5
Jakarta	Shower	32
Jersey	Cloudy	11
Johannesburg	Fair	25
Karachi	Sun	31
Kuwait	Fair	27
L. Angeles	Fair	19
Las Palmas	Fair	26
Lima	Cloudy	31
Lisbon	Sun	24
London	Cloudy	14
Lux.bourg	Rain	8
Lyon	Fair	14
Madeira	Fair	19
Madrid	Sun	22
Majorca	Sun	19
Malta	Fair	14
Manchester	Cloudy	14
Manila	Fair	31
Melbourne	Fair	23
Mexico City	Fair	26
Miami	Shower	27
Milan	Sun	21
Montreal	Fair	0
Moscow	Cloudy	3
Munich	Rain	9
Nairobi	Fair	26
Naples	Fair	17
Nassau	Cloudy	27
New York	Fair	6
Nice	Fair	17
Nicosia	Thunder	17
Oslo	Fair	9
Paris	Fair	13
Perth	Sun	33
Prague	Rain	9
Rangoon	Sun	35
Reykjavik	Snow	0
Rio	Cloudy	23
Rome	Fair	17
S. Frsco	Sun	18
Seoul	Fair	13
Singapore	Thunder	33
Stockholm	Fair	6
Strasbourg	Drzzl	13
Sydney	Thunder	25
Tangier	Sun	21
Tel Aviv	Thunder	21
Tokyo	Fair	12
Toronto	Sun	2
Vancouver	Fair	11
Venice	Fair	16
Vienna	Rain	7
Warsaw	Shower	4
Washington	Shower	9
Wellington	Shower	19
Winnipeg	Fair	3
Zurich	Cloudy	11

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

SGS pressed to sell GAB Robins
Société Générale de Surveillance, the world's biggest testing and inspection company, is under pressure to sell GAB Robins, its poorly performing US loss adjusting business. SGS, based in Geneva, said GAB Robins would now be managed separately from New York. Analysts believe the move could be the first step towards the sale of GAB Robins. Page 23

LVMH hit by crisis in Asia
LVMH, the French luxury goods group which is presenting its annual results today, makes about 40 per cent of its sales in Asia. Its exposure to the crisis-ridden region rose when it bought 61.25 per cent of DFS, a duty-free shopping chain, most of whose business is done around the region. Bernard Arnault, left, LVMH chairman, says costs are being reduced by *renegotiating rents, cutting head office staff, adjusting* sales forces and reducing stocks. Page 23

Stora chief pledges to double profits
On taking over as chief executive of Stora last week, Bjorn Hägglund pledged to cut costs and double the Swedish forestry group's profits within three years. Mr Hägglund's problem is that his efficiency/growth package will only bring Stora back to where it should already be. From being Europe's largest paper company at the start of the decade, Stora is the continent's fourth largest producer. Page 22

Investors jostle for Greek bargains
The Athens stock market celebrated the drachma's entry to the European exchange rate mechanism in style. Investors were jostling for bargains in Greek shares following Saturday's 12.1 per cent devaluation of the currency. Page 36; Currencies, Page 27

Asia's milkman left out in the cold
Falling demand in Indonesia, South Korea, the Philippines and Malaysia is becoming a headache for the New Zealand Dairy Board, which calls itself Asia's milkman. New Zealand is a leading supplier of dairy products to Asia and the region's financial problems are likely to cost it at least NZ$70m (US$41m) this season. This compares with the dairy board's total worldwide sales of more than NZ$6bn. Page 28

Cracks emerge in cement industry
Pakistan's cement manufacturers are in the grip of another potentially damaging price war. The sector has been hit by escalating production costs and sluggish demand matched by a fall in cement stocks in the past year, analysts say. Page 19

Strong performance for US equities
US equities were upbeat, buoyed by a positive interest rate backdrop, a wave of mergers and favourable comments by Warren Buffett. But not all the news for equities was good. Shares in McDonald's went down on Mr Buffett's report to shareholders in Berkshire Hathaway, his investment vehicle, that he had cut his stake in the US fast-food company. Page 38

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CROSSWORD, Page 28

MARKET STATISTICS

BTR raises $1bn on sell-offs

UK conglomerate nears goal of becoming pure engineering group

By Andrew Edgecliffe-Johnson

BTR, the UK conglomerate, yesterday raised about £650m ($1bn) with the sale of two *international* building materials businesses, signalling further progress towards its goal of becoming a pure engineering company.

CVC Capital Partners, the UK private equity group, is buying both Formica laminates and the Australian building products division.

The sale means BTR's chief executive, has completed four-fifths of the second phase of a *disposal programme* announced last September after the City deemed an earlier sell-off had not gone far enough.

Investors had been pleasantly surprised by the £2.2bn disposal of BTR's bottling business two weeks ago, but the group's shares slipped 2¼p to 193¾p yesterday as analysts said the £650m price tag was in line with expectations.

CVC, the private equity group which bought itself out from Citicorp in 1993, did not split out the prices for Formica and Australian building products, which have both suffered from falling profits.

Donald Mackenzie, CVC's managing director, said: "These businesses have been lost in an enormous conglomerate. They became unloved, lost senior management and drifted." He added that CVC would provide investment and fund acquisitions "with a view to flotation in due course". It has already lined up one acquisition for about $200m (£120m), he said.

CVC bought businesses with a combined turnover of £2.7bn in 1997, but the latest acquisition is by far its largest.

It is understood CVC originally hoped to buy the bottling businesses as well, but could not match the offer from Owens-Illinois of the US, which had technology licensing agreements with BTR's bottling division.

Schroders, which advised BTR on the building materials businesses, had appointed brokers to investigate a possible flotation in Australia. It concluded, however, that CVC's cash offer was preferable to the risk and delay associated with an initial public offering.

BTR, which paid $620m for Formica in December 1994, will realise a £520m loss on disposal after the reinstatement of goodwill. Mr Strachan said, however: "This was the combination that gave us the best possible price.

"We had to weigh up the uncertainty of an initial public offering and the Australian market and another three months of business exposure. I do not know what the market would have been like in three months time in Australia."

Wasserstein Perella, which advised BTR on the Formica disposal, is believed to have received approaches from other financial buyers. One BTR adviser said, however: "Accepting CVC's offer was not a difficult decision. There was not much agonising."

The two businesses, which employ 8,100 staff, had sales of about £800m last year and made profits of £65m. Formica's profits had suffered particularly badly in the US.

Lex, Page 24

Cendant raises bid for Florida credit insurer

By William Lewis in New York

Cendant, the international direct marketing group, yesterday raised the stakes in the bid battle for American Bankers Insurance, increasing its offer for the Florida-based credit insurer by approximately 15.5 per cent to $3.1bn, or $67 a share.

This compares with American International Group's offer of $2.7bn, or $58 a share, which *has been accepted by the ABI* board.

Neither ABI nor AIG made any immediate response to Cendant's new offer. People close to ABI said its board would meet today to discuss it.

Henry Silverman, Cendant's chief executive officer, said: "We remain committed to acquiring American Bankers because of the compelling strategic and economic benefits that will result from combining our direct marketing strengths, distribution channels and customer base with ABI's products and customer relationships."

The bid battle started in December when AIG announced a $2.2bn agreed offer for ABI. In January Cendant launched an unsolicited $2.7bn bid, matched by AIG earlier this month. Cendant's new offer would involve its purchasing 23.5m ABI shares through a cash tender offer and paying $67 a share in Cendant shares for the remainder of ABI's outstanding shares. Cendant says that, "even at this new price", it expects the acquisition to be accretive to earnings in 1998.

The battle between AIG and Cendant has become particularly acrimonious. Cendant launched a lawsuit to force AIG to allow ABI to talk to it about its takeover offer. This month pressure from shareholders led AIG to back down and permit ABI to talk to Cendant. Mr Silverman said yesterday that discussions with senior executives at ABI had enabled him to identify new potential growth opportunities.

Cendant was formed by last year's $11bn merger of HFS, a series of franchises from hotels through car hire to property, and CUC, a direct marketing company working through membership clubs.

In morning trading on Wall Street, ABI shares rose $3⅞ to $65⅝.

Telefónica to go 'on offensive' in overseas expansion

By Tom Burns in Madrid

Telefónica de España the Spanish telecoms group, yesterday announced a corporate reorganisation and said it would launch its buoyant international division on the stock market as part of an ambitious overseas expansion.

The group, which disclosed plans to raise fresh capital earlier this month, said it was going on the "offensive" with the capital increase worth some Pta750bn ($4.9bn).

The aggressive strategy comes in the wake of a sustained and strong increase in *the Spanish carrier's market* capitalisation. It also follows a partnership agreement with Portugal Telecom and of a keynote international alliance that Telefónica signed last week with the US operators WorldCom and MCI.

"Before, we were on the defensive, but now we are going on the attack from a position of strength and with our new allies," said Juan Villalonga, the group's chairman.

Telefónica has agreed its new alliances following the end of its ties with British Telecom last month. BT has said it plans to challenge Telefónica's dominance of the domestic Spanish market.

Telefónica also reported an 18.6 per cent rise in net earnings to Pta190.1bn last year and its share price has risen by more than 100 per cent since January 1997.

Mr Villalonga will seek approval at Telefónica's annual shareholders meeting today for the issue of 117.4m new shares. He indicated its proceeds would be principally routed towards Brazil.

Tisa, Telefónica's profitable international unit, already manages a regional operator in Brazil and is eyeing further privatisation opportunities later this year under an initial partnership agreement with Portugal Telecom that could be enlarged to include MCI.

Tisa, which owns telecom *assets* in Argentina, Chile, Peru and Puerto Rico, is earmarked for a market offering next year. Mr Villalonga said the listing would enable the stock to build up liquidity ahead of the acquisition of stakes in Tisa by MCI and Portugal Telecom.

He will also outline to shareholders his ideas for flat or reduced dividend payments to boost the company's growth and ensure enhanced *value for* the stock. "Paying increased dividend is not an imperative when we can offer such an enormous potential for growth," said Mr Villalonga.

In addition to Brazil, Telefónica plans to invest in Mexico and in the US.

Shareholders will also be asked to back the creation of a holding company called simply Telefónica to mirror the new multinational image the group seeks to project.

Telefónica España will become a subsidiary unit, on the lines of Tisa, with responsibility for basic *telephony in* Spain.

The holding will create two new units – Telefónica Media to run the group's burgeoning domestic media interests and Telefónica *Internacional* II, a joint venture with Portugal Telecom that will seek business opportunities in new areas such as Morocco.

Ciba's profits increase by 84% in its first year of independence

By Roger Taylor

Ciba Speciality Chemicals of Switzerland yesterday reported a strong rise in underlying profits for its first year as an *independent company*.

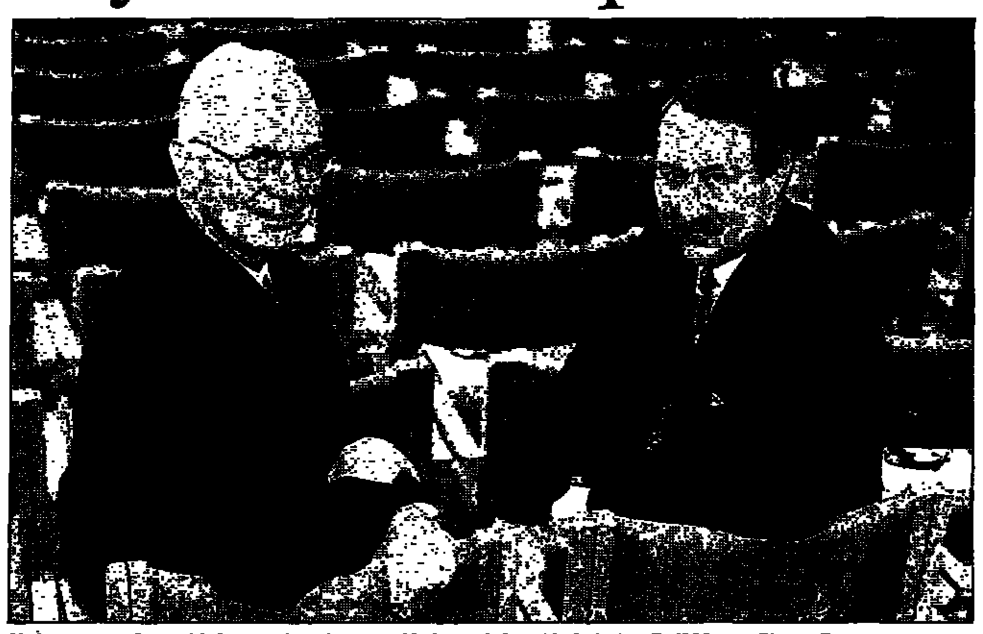
However, the results were hit by higher than expected exceptional charges to cover the cost of its demerger from Novartis, the pharmaceuticals group, and a fall in the value of its Asian assets.

Excluding the exceptional charges, Ciba reported an 84 per cent increase in pre-tax profits to SFr571m ($394m) from last year's SFr311m on a sales increase of 19 per cent to SFr 7.8bn (SFr 6.7bn).

Rolf Meyer, chairman, said yesterday the strong underlying results demonstrated success at creating a performance *oriented culture with the intro*duction of incentives schemes and the adoption of US accounting standards. He said Ciba was one of the first large Swiss companies to adopt US accounting and disclosure practices.

He added that Ciba's incentive scheme, which requires senior managers to invest one year's salary in the company's shares, was being extended. A new long-term share option plan will be introduced next year for 550 managers as well as a scheme allowing employees to buy small amounts of shares at a 15 per cent discount.

The company is also increasing the amount of pay awarded on the basis of hitting economic profit targets.



Sitting pretty: Ciba chief executive Hermann Vodicka, left, and chairman Rolf Meyer. Picture Reuters

Pre-tax profit was reduced by exceptional charges of SFr373m. Most of the exceptionals were to cover the cost of Ciba's demerger from Novartis in March last year. The shares, which floated at SFr110, closed down SFr4.5 at *SFr187* yesterday.

The company paid a dividend of SFr2 and earnings per share were SFr8.38.

An extra SFr70m was charged to cover the write-down of the company's Asian assets following the region's economic problems.

However, Ciba said it did not expect the problems to significantly impact on earnings this year as only 8 per cent of the company's sales were exposed to affected countries.

Analysts said the results were broadly in line with expectations despite higher than expected exceptional charges related to the restructuring of the group.

Mr Meyer defended his decision to buy Allied Colloids, the UK speciality chemicals group, earlier this year for £1.42bn ($2.37bn) in the face of criticism from analysts that the price was too high.

He said he was confident of building up operating margins from 16 per cent to 19 per cent by 1999 at which point he believed the acquisition would be earnings enhancing.

He added that such calculations took no account of possible additional benefits to be gained from sales synergies between the two companies.

David Farrar, chief executive of Allied Colloids, said the deal would allow Colloids to sell products to new markets, such as personal care products, that are served by Ciba.

World Stocks, Pages 35, 38

Test results for Unilever spread hit Raisio shares

By Tim Burt in Stockholm and John Willman in London

Unilever, the world's biggest margarine producer, yesterday confirmed its Van den Bergh subsidiary was developing a spread that can reduce cholesterol levels in the body by up to 10 per cent.

The news led to a sharp fall in the shares of Raisio, the Finnish food and chemicals group that has seen its share price soar 15-fold in the past two years after discovering Benecol, a cholesterol-blocking margarine ingredient. The group's shares fell FM90 to FM790 after the Unilever announcement, but later recovered to FM845 after Raisio confirmed it was on course *to launch its product in the US* in autumn. Unilever's shares were largely unaffected, ending 2p down at 556p.

Raisio said its product had so far proved the most effective in clinical tests. In Finland, it has achieved a market share of more than 20 per cent.

"We have a considerable time advantage over our potential rivals in that our *product has already been on* the market – in Finland – for a couple of years," it said.

High cholesterol is found in animal fats and linked to heart disease. The Unilever spread *contains phytosterol, the plant* equivalent of cholesterol, which reduces its absorption in the digestive system.

Benecol, which has yet to be approved by the US Food and Drug Administration, relies mainly on a combination of sterol and stanol ester, two raw materials extracted from wood pulp and vegetable oil.

The main obstacle to large-scale production is a shortage of the raw materials.

The Unilever product is a vegetable oil extract, which might be easier to produce in bulk. Two of the three independent clinical trials have been completed, with the third, at John Radcliffe Hospital in Oxford, almost finished.

Unilever, the Anglo-Dutch consumer group, is preparing to seek approval from the European Union's Novel Foods Committee. Unless the trials throw up unexpected problems, *Unilever will launch its* new spread early next year.

Raisio's margarine is expected to be launched in North America in autumn, as part of a worldwide distribution and *marketing agreement* with Johnson & Johnson, the US healthcare group.

In the US alone, there are an estimated 90m people with high cholesterol levels.

The new product would join a handful of others in the market for nutriceuticals or functional foods that claim to improve the health of consumers.

Analysts believe such products could generate significant demand from consumers using them as a preventative dietary aid, as well as those with high cholesterol levels.

Several other large consumer groups have experimented with marketing functional foods. Quaker Oats, the US food group, has had the most success in establishing health-giving properties in its products. Following research that showed oatmeal reduced cholesterol, it now makes the claim on its packaging.

TELECOMS 360 COMMUNICATIONS' BRIEF LIFE AS AN INDEPENDENT COMPANY COMES TO AN END

Alltel in $4bn move for wireless group

By Richard Waters in New York

The latest wave of acquisitions in the US telecommunications industry gained momentum yesterday with the $4bn purchase by Alltel of 360 Communications, one of the biggest pure wireless companies.

The deal reflects the pressures which have driven other recent combinations, including last week's $4bn acquisition by Qwest of LCI: an attempt to cut costs by combining separate networks, while amassing greater financial strength and flexibility to compete in what has become a fast-consolidating market.

For Alltel, a mainly local carrier based in the south-east and mid-west which already has a stock market value of $8bn, the purchase will bring a stronger wireless presence in markets it already serves.

Both companies are largely dependent on the south-east – a region dominated by Bell South, one of the five Baby Bells – and both operate mainly in small cities and rural areas.

For 360 Communications, the deal represents the end of a brief and not entirely happy spell as an independent company following a spin-off from its parent, Sprint, two years ago.

The spin-off left Sprint free to pursue a joint venture with a group of cable TV companies, known as Sprint PCS, to create a digital wireless network from scratch. Since then, 360 has suffered from a patchy earnings record and a sagging stock price.

Its shares remained stuck at about $20, well below the price at the time of the spin-off, before soaring this year on takeover speculation. The stock peaked at $35⅝ last Friday, as rumours of an impending deal swept Wall Street, but fell back to 31\frac{11}{16}$ yesterday morning after news of the acquisition emerged.

Alltel said it would issue 0.74 of a share for each 360 share. Its own stock fell by 1\frac{1}{16}$ on the news, to $44¾.

The two companies said they would save $100m a year by 2000, mainly by using a fibre-optic long-distance network being built by Alltel to carry traffic that originated on the 360 network.

Other savings – and higher revenues – would come from combining the sales channels of the two companies, they added.

Like other companies in the industry, the two said their combination would produce a company capable of producing a broader array of telecoms services, including local, long-distance and wireless services.

With 2.6m customers, 360 is the second largest pure wireless company to be listed on the stock market, behind AirTouch.

Aetna to acquire NYLCare for $1bn

Aetna, the US life and health insurer, has agreed to buy New York Life Insurance Company's NYLCare Health Plans unit for $1.05bn cash, plus possible additional payments contingent on future performance, APX-News reports from New York.

Aetna said it expected to finance the transaction with fixed-income securities and revealed that the deal has been approved by the boards of both companies.

The agreement, which is expected to be completed in the third quarter, is subject to state and federal approvals.

Aetna said the acquisition should be earnings-enhancing within one year of closing. Dan Messina, Aetna chief financial officer, said this acquisition would be executed more slowly and carefully than the 1996 purchase of US Healthcare for $8.2bn.

Attempts to assimilate US Healthcare rapidly last year forced Aetna to take a fourth-quarter charge of $301m for severance and facilities costs.

"We learned valuable lessons from the integration of US Healthcare and we see minimal service obstructions at NYLCare," Mr Messina said.

To avoid unnecessary charges and inconvenience to patients, Mr Messina said Aetna would take up to 30 months to complete the integration. It would begin in NYLCare's smaller markets and work up to its holdings in metropolitan areas such as New York and Washington.

He said Aetna expected to eliminate some jobs when it reached the metropolitan areas, due to administration duplications. However, it believed many of the redundancies could be achieved through normal attrition.

He declined to estimate the number of redundancies.

Once achieved, Aetna expected the integration to save about $45m-$50m in administrative costs.

Iomega shares slide on warning of loss

By Louise Kehoe in San Francisco

Shares in Iomega fell sharply yesterday when the US manufacturer of back-up storage systems for personal computers warned it expected a loss for the first quarter.

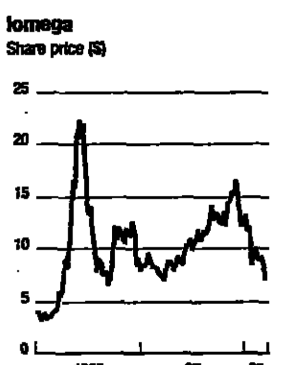
The company, which makes the popular Zip drive and other removable computer disk drives, said it expected to report a loss of between $10m and $25m.

The Utah-based company said revenues would be flat, compared with the same period a year ago, and that it expected to be cash-flow negative for the quarter.

In the first quarter of 1997, Iomega earned $23m, or 9 cents a share (adjusted for a two-for-one stock split) on sales of $361.3m.

Analysts had expected the company's earnings to at least match last year's first-quarter result.

Iomega shares fell 1\frac{5}{16}$, or 18 per cent, to 7\frac{3}{16}$ in mid-session yesterday. The one-time Wall Street favourite was trading as high as $16⅞ just three months ago.



Source: Datastream/ICV

The company first attracted broad investor attention in 1996, largely as a result of enthusiastic coverage by "Motley Fools", a popular stock market internet web site.

The shares generated a 258 per cent average compound annual return between the end of 1994 and the end of last year. However, they have since dropped sharply.

Iomega's flagship product, the Zip Drive, is used to create a back-up copy of data stored on a PC. Much of Iomega's past profits have come from sales of disks – removable storage media used with the Zip Drive.

The company said shipments in all regions were lower than expected, particularly in international markets.

"The shortfall in sales, combined with over $20m in incremental marketing expenses, appear to be the main factors contributing to our expected loss," said Kim Edwards, president and chief executive.

Slower international sales may be linked to new competition. Nomai, a French company, is offering a compatible product at a price about 30 per cent lower than Iomega's.

Iomega has become entangled in an extensive legal battle with Nomai in efforts to enforce its intellectual property rights in Europe and the US.

Intense price pressure in the PC market may also be having a negative effect on Iomega's sales, industry observers said.

Extra equipment such as Zip drives is being left out to keep prices to a minimum.

Safety-Kleen agrees merger

By Scott Morrison in Toronto

Laidlaw Environmental Services, part of Canada's Laidlaw group, announced yesterday the end of a bitter three-month takeover battle, after it agreed a US$2.1bn merger with Safety-Kleen, the US waste recycler.

Safety-Kleen said it would vacate board seats in proportion to the percentage of shares tendered to Laidlaw, which last week demanded that the entire group of directors resign to enable a new board to execute the merger. Laidlaw said then that Safety-Kleen was required to give up control of the board as a condition to complete the transaction.

Safety-Kleen's eight directors had blocked the bid for months by refusing to endorse it. However, the directors yesterday announced that they would unanimously support the merger agreement and recommend it to shareholders, who have until March 27 to tender shares.

Laidlaw has increased its offer and will pay Safety-Kleen shareholders US$18.30 a share in cash and 2.8 Laidlaw shares for each Safety-Kleen share. That raised the nominal value of the transaction to US$2.1bn, from US$2bn, including US$240m in debt.

Laidlaw said about 41 per cent of Safety-Kleen's 58.5m shares had been tendered as of Friday. Its offer is conditional on obtaining control of two-thirds of Safety-Kleen's outstanding shares.

The two companies have been at odds since Laidlaw made an unsolicited offer for Safety-Kleen, which was already pursuing a merger with Philip Services, another Canadian waste group that had offered US$1.8bn.

Safety-Kleen's shareholders rejected Philip's offer, leaving the board with little alternative than to pursue talks with Laidlaw.

Safety-Kleen's unease over the Laidlaw offer was thought to centre on the share element of the consideration and questions over whether the synergies claimed by Laidlaw could be achieved. Safety Kleen shares were up slightly at 28\frac{7}{16}$ in midday trading, while Laidlaw was unchanged at $4¼.

Top DMG bankers hit at 'rumours'

By William Lewis in New York

Deutsche Morgan Grenfell's best known US investment bankers have hit out at "false rumours" being spread by "envious competitors" and have pledged their future to the German bank.

Written by Frank Quattrone, chief executive officer of DMG's technology group, a letter to clients states that a recently announced Deutsche Bank restructuring will not affect the technology group's performance and that the group is not being offered for sale to competitor investment banks.

The letter alleges that competitors are "attempting to stall our progress by spreading fear, uncertainty and doubt – many of you have been victimised by this phenomenon". The letter concludes: "We are here to stay. Please trust us."

The decision to send the letter to clients follows growing concerns among DMG staff and some clients about Deutsche's commitment to investment banking in the US. Last month Carter McClelland resigned as DMG joint head of investment banking after the German bank announced a reorganisation that would combine DMG, its investment banking arm, with its commercial bank to create a new wholesale bank.

US-based staff believe that Deutsche Bank is scaling back its North American ambitions, while executives in London and Frankfurt say that a global strategy remains in place but US costs have spiralled out of control.

The letter is also signed by the two other senior bankers in DMG's technology group – George Bouttros, head of mergers and acquisitions, and Bill Brady, head of corporate finance. It is also signed by Josef Ackermann and Ronaldo Schmitz, members of the Deutsche board, and Robert Allardice, president and chief executive for Deutsche in North America.

DMG announced yesterday that Thomas Galvin, chief equity strategist at DMG, had resigned and would be joining Donaldson Lufkin & Jenrette, the US investment bank. DMG said that his decision was unrelated to the reorganisation and that it represented a "wonderful career opportunity for Tom".


Frank Quattrone: DMG's technology group not for sale

NEWS DIGEST

ADVERTISING

Omnicom to close Wells BDDP after losing clients

Omnicom, the US advertising group, is shutting Wells BDDP, the New York agency it acquired as part of its £141m ($235.5m) takeover of GGT, the European advertising group. The decision follows the loss of some significant clients which led Omnicom to conclude that Wells BDDP was no longer a viable entity. In January, Wells BDDP's loss of Procter & Gamble as a client, which provided 6 per cent of its annual billings, prompted a sharp fall in GGT's share price, leaving it open to the Omnicom bid.

While some Wells BDDP clients are going to other parts of Omnicom – Hertz has chosen BBD Needham as its new agency – the risk of conflict has deterred at least one other. Concern at a conflict of interest resulting from Omnicom's representation of Anheuser-Busch, which brews Budweiser, the leading beer brand in the US, lay behind last month's decision by Heineken, the Dutch brewer, to move its account. **Alison Smith**

IMAGING

Eastman Kodak chief upbeat

Eastman Kodak, the US photographic group, will go through a "tough" first quarter and a "less tough" second quarter, but 1998 as a whole will show significant improvement over 1997, George Fisher, chairman and chief executive, said yesterday. "I think we're going to have a decent year, improving significantly over last year," Mr Fisher said. "It's skewed more toward the end of the year than the front of the year. The first quarter will be tough, the second quarter less tough, this year better, and next year better," he said. "The costs are coming out gradually, and the profits are improving gradually."

Kodak earned $5m in 1997, or one cent a share, after a fourth-quarter charge of $1.5bn for restructuring and asset write-downs and a first-quarter write-off of $186m from the acquisition of the Wang software business. Kodak had 1996 profits of $1.288bn, or $3.82 a share. **Reuters, New York**

MEDICAL DIAGNOSTICS

Abbott to buy Murex

Abbott Laboratories, the US drugs and medical technology company, said yesterday it had agreed to acquire International Murex Technologies, a medical diagnostics company that makes infectious disease screening products, in a cash offer valued at about $234m, or $13 a share.

"The diagnostics market continues to evolve and consolidate," said Robert Cusick, vice-chairman, president and chief executive officer of Murex. "Size and economy of scale are necessary to remain competitive. This transaction will provide our existing and new products the formidable support of the world's leading diagnostics company," he added. "In return we provide Abbott with unique technologies, an extensive microtiter plate infectious disease product line and our patient monitoring portfolio."

Murex had revenues of $106m last year; its shares closed on Friday at 10\frac{5}{8}$. Abbott had sales of $11.9bn in 1997, and its stock closed on Friday at $77⅞. **Reuters, Chicago**

REITS

CapStar and AGH to merge

CapStar Hotel and American General Hospitality have agreed to merge to form a real estate investment trust (Reit) with a market capitalisation of about $3bn. The companies said the terms of the deal call for CapStar to spin off its hotel operations and management business to its shareholders as a new corporation, to be called MeriStar Hotels & Resorts. CapStar then will merge into AGH in a tax-free reorganisation.

The Reit, to be named MeriStar Hospitality Corp, will own 110 hotels in 30 states and Canada, the companies said. Upon completion of the spin-off and acquisitions, MeriStar Hotels will own and manage 202 hotels in 31 states, they added. Based on current market conditions, the companies said they estimated the initial value of MeriStar Hotels would be between $2.50 and $3.50 a share.

The two companies expected to realise cost savings in the first year of $5m-$10m. They also expected the merger to be accretive to 1998 earnings. Paul Whetsell, CapStar chairman and chief executive, will become chairman and chief executive of the combined company, while Steven Jorns, AGH chairman and chief executive, will become vice-chairman and chief operating officer. The Reit will have headquarters in Washington, with large regional and accounting operations in Dallas. **Reuters, New York**

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TELECOMS HK GROUP LIFTS CUSTOMER BASE

SmarTone to buy P-Plus for HK$736m

By Louise Lucas in Hong Kong

SmarTone Telecommunications Holdings, Hong Kong's third biggest mobile telephone operator, is to pay HK$736m (US$95m) for P-Plus Communications, a fledgling second-generation mobile network.

The deal follows a similar purchase by Hongkong Telecom, the territory's dominant carrier which – like SmarTone – failed to win a personal communications network (PCN) licence two years ago. Both had sought licences as a means of increasing their subscriber capacity.

Consolidation within the highly competitive sector had been widely expected. In 1996, when the market was shared by four companies, the government awarded six new PCN licences, unleashing a price war and eroding the generous profit margins.

SmarTone said the acquisition gave it nearly 500,000 customers, and that it would be able to save costs because of synergies between the two networks. Hubert Ng, chief executive, said P-Plus had invested more than HK$600m in the network, which meant SmarTone was now paying a premium of around HK$100m.

"I think the price we are paying is fair value," he said. Analysts broadly agreed: "It shows valuations in the cellular sector are coming off sharply," said Gantum Kapoor, regional telecoms analyst at ING Barings.

In its announcement to the stock exchange, SmarTone said it was assuming the P-Plus network's debts of HK$533m, but Richard Chan, financial controller, said the only additional loan was a commercial loan for around HK$100m, which he described as "transitional".

NiQ Lai, regional telecoms analyst at Credit Suisse First Boston, said this gave an enterprise value of around HK$850m. "I think it's an excellent price," he said.

The price compares with the HK$4.83bn paid by Hongkong Telecom for Pacific Link Communications, which comprised an existing network with 270,000 subscribers and a fledgling PCN service. P-Plus has just one network with around 30,000 subscribers, but analysts point out that in both cases the acquisitions were made primarily for spectrum, or additional capacity.

Analysts do not rule out further market consolidation although it is more likely to come from PCS operators merging or going bankrupt.

Mr Ng of SmarTone said: "Now there are six operators with a market size of up to 3m, which is good for everyone. Choice and competition remain in the market, so prices will continue to drop."

P-Plus is majority owned by Star Telecom.

SmarTone was advised on the acquisition by Jardine Fleming Securities.

Cracks emerging in Pakistan's cement industry

Sector is gripped by a price war as costs have escalated and demand has declined, says **Farhan Bokhari**

Pakistan's cement manufacturers are in the grip of another potentially damaging price war.

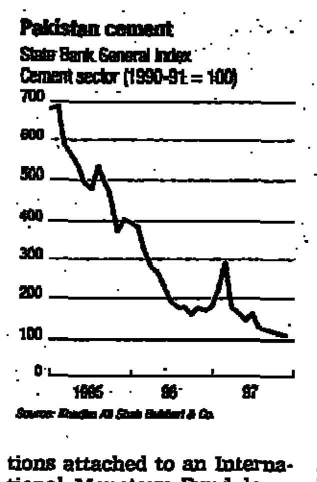
The All Pakistan Cement Manufacturers' Association, whose members produce Rs5bn (U$114m) worth of cement annually, has assumed the shape of the country's first cement cartel amid mounting losses for the industry.

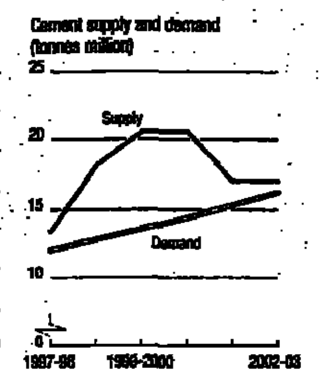
At least 12 of Pakistan's 19 cement companies have reported substantial losses in their July-December results, in spite of price increases of up to 30 per cent over the period.

The slump across the sector has been triggered by escalating production costs and sluggish demand, market analysts say, and has been matched by a fall in cement stocks in the past year.

Producers argue that input costs have jumped in the past year, driven mainly by a 100 per cent increase in the cost of furnace oil, the main fuel used by the industry, and high taxes.

Pakistan's decision last week to raise electricity tariffs by 12 per cent, in the first stage of a two-part increase to meet the conditions attached to an International Monetary Fund loan, has been cited as an added burden.





However, some say the glut has been caused by new entrants to the industry. Some of these have no experience of running cement businesses: at least five of the largest 12 companies are owned by investors who came from the textile sector.

Najam Jafri, marketing director of Pakland cement factory, says: "The new players thought that cement could be produced and run like a piece of cloth. It is a very different product."

Mr Jafri laments that some businesses cut prices last year in the hope of lifting sales, without realising that "the demand was not going to grow beyond a certain point".

'If cement businesses raise their prices to cut losses, there is a danger consumption could remain sluggish,' says an analyst

Many industry analysts say the government is encouraging cement producers to step up exports as a way of returning to profitability, but some producers claim the government shows little understanding of world trends.

In particular, Pakistani exporters face tough competition from east Asia after last year's sharp currency devaluations in the region.

Analysts warn that the glut in cement businesses could last for years as new factories presently under construction go on stream next year.

Asghar Merchant, analyst at Karachi's Khadim Ali Shah Bukhari brokerage, says: "The industry faces pressure on two fronts. The rise in production will outpace demand, but the government policies are driven by high taxes which hurt the ability of the industry to become competitive."

Mr Jafri says the producers are trying to increase consumers' appetite by encouraging new products such as cement blocks to replace bricks. Cement producers also want the government to use concrete rather than asphalt in all construction projects, in order to step up demand.

In Karachi, the country's largest port city, houses and offices are increasingly using cement blocks to replace bricks, which crack easily in the humid environment. But elsewhere in the country, cement producers have had little luck in changing trends.

Privately, many analysts agree that the cement cartel could get caught in a vicious circle. "If cement businesses raise prices to cut their losses, there is a danger that consumption could remain sluggish and encouraging people to use cement blocks would fall on deaf ears," says one.

Mr Jafri, however, says that "the cement price war has ended because everyone has bled enough".

He hopes that producers will accept a new formula that would keep production levels in step with demand, to prevent another damaging round of cut-throat competition.

Honda to take 97% of Thai unit

By Ted Bardacke in Bangkok

Honda Motor, of Japan, plans to take full control of its Thai subsidiary by buying out Thai shareholders for Bt4.19bn ($104m), increasing its holding to 97 per cent from 49 per cent.

The deal aims to bolster the Thai company's financial condition, which has deteriorated with the dramatic slowdown in sales following the region's economic crisis. Passenger car sales declined 74.6 per cent in February compared with the same period last year, and in 1997 sales fell 38.4 per cent.

Thai shareholders, which include the Crown Property Bureau, have been unable to meet the demands of the company during the slowdown. When Honda's venture was set up, foreign investors were barred from owning more than 49 per cent of a company.

The deal is subject to regulatory approval by Thailand's Board of Investment. An official with the board said approval was likely, given that Honda had indicated a willingness to sell back a majority stake to Thai shareholders when the economy improved.

Market cool on Telstra sale plan

By Gwen Robinson in Sydney

The Australian stock market reacted cautiously yesterday to the weekend announcement by John Howard, Australian prime minister, of the planned sale of the government's remaining two-thirds stake in Telstra, the telecommunications group.

With an estimated market value of A$45bn (US$30bn), the sale would be one of the world's biggest public share offers.

Since Telstra's initial one-third flotation last November, the company has traded at a significant premium to its listing price of A$1.95. Telstra instalment receipts closed last week at A$3.85. However, they fell back 7 cents to A$3.78 yesterday as investors digested the implications of Mr Howard's announcement.

A crucial factor in the privatisation plan is Mr Howard's decision to link it to the future of his government. On Sunday, he said the government would proceed with the sale of its Telstra stake only if it was re-elected in the next national election, which must take place within the next 12 months or so.

The opposition Labor party has vowed to try to block government efforts to pass necessary legislation for the Telstra sale.

In the short term, the privatisation plan would weaken Telstra's share price, analysts said. Shareholders associations and other consumer groups yesterday warned individual investors against expectations of a repeat of last November, when many first-time investors more than doubled their initial outlays in the Telstra flotation.

Leading fund managers predicted strong appetite among large institutions for a second round of Telstra shares – even though some analysts have described Telstra as the world's most overpriced telecommunications stock.

Since the initial flotation, it has been largely the shortage of stock which has driven up Telstra's share price. The government's plan to maintain a 35 per cent limit on foreign ownership, however, will release a large number of shares to domestic investors. There will also be pressure on the government to offer Telstra's existing 1.6m shareholders sweeteners including discounted shares and preferential allocation.

The initial sale, which raised A$14.3bn, was four times oversubscribed.

Bangkok Bank sell-offs continue

By Ted Bardacke

Bangkok Bank, Thailand's largest commercial bank, is continuing to cede control of its finance and securities affiliates in a series of deals to prepare it for a capital raising exercise, expected later this year.

Bangkok First Investment yesterday said it was in talks to sell an undisclosed stake to China Development Corporation, of Taiwan. Bangkok Bank is the largest shareholder of Bangkok First Investment.

The move follows the sale of controlling stakes by Bangkok Bank in Asia Securities Trading to ABN Amro, and in Asia Credit to Société Générale. Offers for portions of other Bangkok Bank subsidiaries such as Union Asia Finance and Bangkok Insurance were also being entertained, analysts said.

The disposals do little to help the bank's direct cash position, as most of the sales are via injections of new capital by the foreign investors. Bangkok First Investment said earlier this month it would raise its registered capital from Bt165m to Bt1.05bn ($26m) via a placement to Thai and foreign investors and a rights issue.

However, the sales remove some doubts about the bank's own capital raising plans, which many analysts believe will be in the form of an issue of new equity on international markets.

"Investors looking at putting new capital into Bangkok Bank wonder how much [of the new money] will actually get pumped into the ailing finance companies," said Scott Christensen, of Jardine Fleming Thanakom Securities. "This is a rational and sensible move ahead of a share issue."

Bangkok Bank has yet to announce a capital-raising plan but Chatri Sophonpanich, executive chairman, recently said the bank would like to raise Bt30bn-Bt50bn.

Analysts believe the bank is awaiting an announcement from Thailand's central bank on new provisioning and loan classification rules before finalising any plan.

ACCOUNTANCY COMMISSION APPROVES PW-COOPERS DEAL

Brussels gives green light to $13bn merger

By Emma Tucker in Brussels and Jim Kelly in London

The European Commission yesterday approved the $13bn merger of Price Waterhouse and Coopers & Lybrand, the international accountancy firms, saying the tie-up did not pose a threat to competition.

Brussels said the collapse of the proposed accountancy merger between KPMG and Ernst & Young last month had been crucial in its decision to drop regulatory objections to the PW-Coopers deal.

"Our conclusion is that there is sufficient firepower among the other four big accountancy firms to offset the effect of the merger," the Commission said.

The prospect of the so-called Big Six accountancy sector becoming the Big Four had raised serious regulatory concerns at the Commission over both competition and auditor independence.

Brussels said that Coopers & Lybrand and Price Waterhouse had also made clarifications of their merger plan, which had helped the Commission reach an early decision to grant regulatory approval.

The main concern of the Commission had been the dominance of the merged companies in the audit markets for banking and insurance companies in different geographical areas of the European Union.

Rival firms suggested that concessions had been made to win speedier clearance from the Commission. But both firms insisted they had made no concessions to the Commission, a view endorsed by merger officials. "We would emphatically deny that there have been any concessions at all. Nothing has changed in shape or form since we first announced this," the firms said.

It is understood PW and Coopers were able to convince the Commission to look at competition in the insurance and banking sectors on a regional basis and to accept that they did not hold a dominant position.

Both firms were also able to demonstrate that they had achieved strong positions in specialist auditing markets from a standing start, illustrating that the markets were not closed to other members of the Big Six.

Formal clearance will not be granted for up to another six weeks, as the Commission's verdict has to go before an advisory committee of the member states. The committee usually follows the advice of the Commission.

Clearance from Brussels follows last week's decision by the US competition authorities to approve the deal. Approval will still be required in other jurisdictions, such as Switzerland, but the Commission's decision lends the merger considerable momentum.

Japan's 7-Eleven sets store by computer links

Systems allowing rapid replenishment of stock have helped retailer outgrow its parent, says **Bethan Hutton**

While most Japanese retailers are issuing profit warnings and bemoaning the depressed state of the economy, one corner of the retail world is forging ahead.

Japan's convenience store sector is still growing, although a stroll through any Japanese city is enough to convince a visitor that the market is saturated.

The brightly coloured signs of 7-Eleven, Lawsons, FamilyMart and others crop up every few hundred yards. But even during the current economic slowdown, their numbers are increasing at the rate of a thousand or more a year, and sales are rising at existing stores.

In an age of discounting, competition on price is not an issue for the convenience stores. In fact, their prices are about 10 per cent more expensive than those of the supermarkets.

But the amount of cash involved on each visit is so small that consumers seem to lose their price-sensitivity. The average convenience store spend is about Y500 ($3.90) – literally small change – while the slump in retail sales has been severest in big-ticket items such as cars and white goods. Customers are drawn to convenience stores by their immediate need for lunch or a new toothbrush.

Another factor in the stores' success is their ability to adapt instantly to changing customer needs, because of their small store sizes and limited product ranges. Hard times mean shoppers are more choosy, and getting the right products on the shelves at the right time is essential.

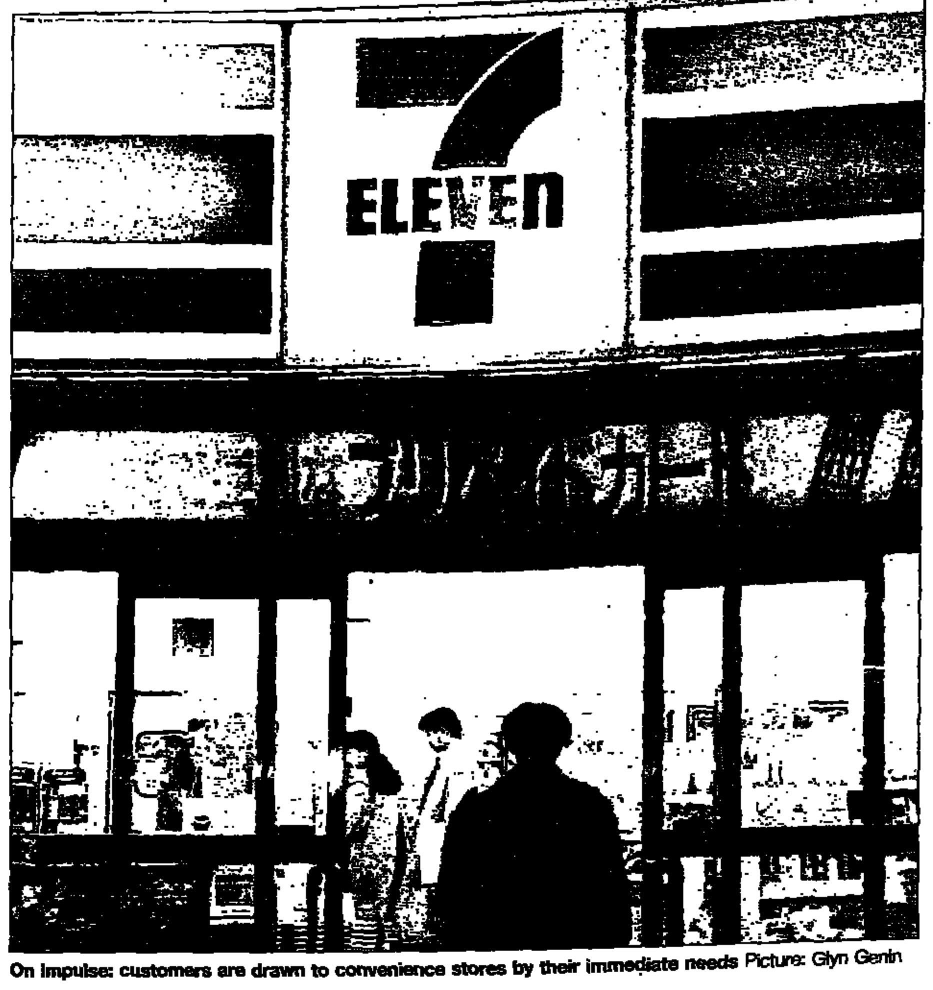
Most convenience stores are doing better than might be expected from the state of the economy, but according to Toshiko Binder, retail analyst at HSBC James Capel Securities, one stands out from the rest. It is also the company which pioneered the convenience store concept in Japan, translating it successfully from its US origins: 7-Eleven Japan.

Since its first store opened in Tokyo 25 years ago, the company has not only outgrown its Japanese parent, the Ito-Yokado supermarket chain, but together with Ito-Yokado now owns a majority stake in Southland Corporation, the US company from which it originally licensed the 7-Eleven name.

7-Eleven Japan is the country's largest retailer and third largest in the world, and ranks 12th in the FT500 list of Japanese companies, according to market capitalisation.

With 7,300 stores, the company has the largest network in Japan. More impressive, it also boasts the highest average daily sales per store, at around Y669,000. Its closest competitor is Circle K, with less than Y600,000, and the average at many other chains is less than Y500,000.

An important factor in 7-Eleven's success has been its commitment to the development of specialised computer systems to link every store and depot, allowing rapid turnover and replenishment of stock.



On impulse: customers are drawn to convenience stores by their immediate needs Picture: Glyn Genin

The fifth-generation version of the computer system, adding multimedia and satellite communications, is in development and will be introduced next year, at a cost of about Y60bn.

Ms Binder at HSBC James Capel says the computerised distribution system is the big difference between 7-Eleven and its competitors. "With the system they have established, whatever time you go, the shelves are never empty. If people come in at 4am and the stores don't have what they want, that will have a big impact on what people think of the store."

Distribution hubs divide products into four categories, depending on temperature, and deliver them on rotas ranging from three times a day for the core fast-food products, to once a week for canned foods. This cuts the number of separate deliveries to each store from about 70 to 10 a day, timed to bring in supplies of fast-moving chilled foods just before peak demand periods.

The combination of the advanced computer system with central distribution hubs has so far proved unbeatable. Orders for fast foods can be placed in the morning – with an eye to the day's weather – and are delivered the same day.

The product range can also change rapidly with immediate feedback on which items are selling well, and to which customers.

7-Eleven has also led the way in offering other services, such as photocopying and bill payment facilities. Rivals have followed, but 7-Eleven has links with more utility companies. In the 1997 financial year it processed about 38m transactions. The service itself is not profitable, but it draws in customers who make impulse purchases.

In spite of the seemingly ubiquitous presence of convenience stores throughout Japan, there is still room for more. New franchises spread out from a core around distribution centres, ensuring that frequent deliveries of fresh products can be guaranteed.

This means that although 7-Eleven is the largest retailer in Japan, so far it has outlets in only 25 of Japan's 47 prefectures – leaving plenty of opportunities for further growth.

Mexico steel group snaps at US heels

Ispat Mexicana is considering a move into its country's car sector, writes **Henry Tricks**

In the audacious style of its parent Ispat International, a Mexican company may soon take on the titans of the US steel industry in an attempt to become the first domestic supplier of top grade steel for Mexico's booming car industry.

The plan is under study at Ispat Mexicana, Ispat International's largest producing subsidiary which in six years has been transformed itself into Mexico's biggest steel exporter.

"If we go downstream, that would be our market: automobiles, refrigerators, other white goods," says Narendra Chaudhary, one of Ispat Mexicana's executive directors. "We would aim for the top end of the market."

Company officials say a feasibility study at Ispat Mexicana is under way for a $500m-$700m project to build hot and cold rolling mills and a galvanising line that would make sheet steel of sufficient quality to be used for the bodies of vehicles assembled in Mexico.

Analysts say its larger Mexican rivals, Ahmsa and Hylsamex, have been unable to tap the top end of the car market – which produced 1.3m vehicles in 1997 – because of insufficient quality. Car bodies require top-grade cold-rolled and galvanised steel.

If, as officials expect, the plan goes ahead, it would be part of a wider endeavour to turn Ispat Mexicana into Mexico's largest steel producer.

The company currently dedicates most production to slabs, though it has a small steel-pipe manufacturing operation. It is the world's second largest exporter of steel slab after Brazil's CST. Already, it says, the low-carbon slab it exports to the US is cold-rolled, galvanised and re-imported to Mexico for car exteriors. Citing potential cost advantages

If the plan goes ahead, it will be part of a wider endeavour to turn Ispat Mexicana into Mexico's largest steel producer

because of lower freight costs than its US competitors, it would aim to short-cut the loop and supply finished products directly to assembly plants in Mexico.

The market is highly competitive. "The risk is the same one that every intermediate industrial company faces – pricing pressure because of global overcapacity. To counter that risk you have to be the best and the lowest cost producer," says Bond Snodgrass, steel analyst at SBC Warburg Dillon Read in Mexico. He describes supplying steel to carmakers as a market where producers "undercut themselves to shreds" to get a toehold.

But Ispat International has a daring streak, embodied in its London-based chairman, Lakshmi Mittal. He left behind family-owned steel mills in India in the late 1980s to build a $4bn global empire, by buying under-performing assets and turning them round. Ispat International, which was incorporated in The Netherlands last May, now has operations in Mexico, Trinidad, Canada, Germany and Ireland.

When he bought the Sicartsa complex in Mexico, which had cost the government $2.2bn to build, Mr Mittal paid $220m. The mill was running at 25 per cent of capacity and its order books were depleted.

In six years, Ispat Mexicana's casting of steel slabs had tripled to 2.8m tonnes and the company is racing to become Mexico's largest steel producer, with a $175m investment programme aimed at boosting liquid steel production to 4.4m tonnes by 1999.

In addition to this and the rolling mill plans, MRR Nair, who heads the Mexican subsidiary, says Ispat Mexicana intends to buy a second iron ore mine near the complex at the port of Lázaro Cárdenas, and may build its own power generation facility. That would help it keep down costs, already low because Ispat Mexicana produces direct reduced iron (DRI) as feedstock for its steel. DRI, Ispat says, costs it $94 a metric tonne, compared with $156 for comparable grade scrap used by many US competitors.

Steel imports into Mexico have ballooned recently, rising to 1.65m metric tonnes in 1997, worth $1.5bn, compared with 571,000 metric tonnes in 1995. Most of the imports are flat steel products such as those used on car exteriors. Ispat's decision whether to go ahead with the plan may, the company says, be encouraged by its abortive bid for Sidor, the Venezuelan steel complex sold last year for $2.3bn. Sidor includes downstream facilities such as those being considered at Ispat Mexicana.

The Mexican company's slab export market has also been shaken up this year by Asia's financial crisis. Mr Nair said Ispat Mexicana's exports to Asia, which accounted for 25 per cent of sales in 1997, were likely to be halved in 1998. But he expected that to be offset by a new surge in shipments to Europe.

NEWS DIGEST

AIRLINES

Air France lifts turnover 8.9% ahead of flotation

Air France, the state-owned airline which is being floated on the Paris stock market later this year, lifted turnover for the nine months to the end of December by 8.9 per cent to FFr46.2bn ($7.6bn), compared with the same period a year ago.

The government is committed to selling a 20 per cent stake in the flag-carrier, as part of development plans which involve investing FFr40bn in new aircraft over the next five years.

Passenger revenue continued a strong upward trend in the third quarter, up 9.3 per cent, while total passenger revenues for the April-December period increased 9.3 per cent. Available seat capacity rose 6.2 per cent in the third quarter, with a total increase of 2 per cent over the nine months. Demand remained high and was up 6.8 per cent in the quarter and 3.8 per cent for the nine months, generating stronger traffic growth than capacity.

Long-haul routes showed the most significant growth, up 11.2 per cent in the quarter and 5.8 per cent in the nine months. On Asian routes, load factor stagnated in December but operations in the region showed growth of more than 10 per cent in the last few months. Medium-haul routes saw a 5.4 per cent rise in the third quarter.

Restructuring moves meant domestic routes saw a drop in traffic limited to 1.2 per cent against a 6.5 per cent reduction in capacity. Load factor rose 3.6 per cent in the quarter and 4.9 per cent over the nine months. **Reuters, Paris**

PHARMACEUTICALS

UK purchases boost Gehe

Gehe, the German drugs wholesaler, saw its 1997 earnings from ordinary activities climb 16 per cent, boosted by the acquisition of Lloyds Chemists, of the UK. Earnings from ordinary activities climbed to DM472.3m ($260m) from DM406.9m the year before, on sales up 16.9 per cent at DM25bn.

Net profit, however, fell 35.2 per cent to DM285.1m. Gehe said the 1996 figure had been boosted by exceptional gains from the sale of drugs production units. Stripping out these gains, 1997 net profit was up 19 per cent on the previous year.

The company said UK subsidiaries Lloyds Chemists and AAH had contributed about 30 per cent to the group's profit. Gehe said its French drugs wholesale operations and its drugs mail-order business had achieved double-digit profit growth in 1997, but German drugs wholesale operations had recorded a small drop in profit due to a stagnant market.

The company plans to raise its 1997 dividend to DM1.30 a share from DM1 the previous year. **Reuters, Stuttgart**

EASTERN EUROPE

Austrian bank in direct service

Bank Austria Creditanstalt yesterday announced the start of the first direct banking service in Hungary and in central and eastern Europe. Nonstopbank will target young, high income earners, Matthias Kunsch, Bank Austria Creditanstalt managing director, said.

Hungary has an estimated 100,000 people fitting this profile, and the number is growing, Mr Kunsch added. He declined to give the investment costs of the new service, but said advertising costs, including a poster and electronic media campaign, were a "significant" part of the total.

The bank intends to expand the service to other countries in the region. **Kester Eddy, Budapest**

OFFICE EQUIPMENT DEAL WILL STRENGTHEN AND MODERNISE ITALIAN GROUP'S PRODUCT RANGE

Olivetti set for partnership with Xerox

By Paul Betts in Milan

Olivetti, the Italian telecommunications and information technology group, will on Thursday announce a commercial partnership with Xerox, of the US, to strengthen and modernise its range of office equipment products.

Roberto Colaninno, Olivetti chief executive, yesterday confirmed that the group's Lexikon office equipment subsidiary would sign a commercial partnership deal with Xerox involving another stage of Olivetti's recovery strategy.

While Olivetti would maintain its collaboration with Canon, of Japan, in the office equipment sector, the deal with Xerox would give it access to the US group's digital and laser technologies. In return, Xerox will be able to draw from Lexikon's own technologies.

Confirmation of the deal, coupled with growing expectations that Mannesmann, of Germany, is considering acquiring a direct stake in Olivetti to reinforce its telecommunications partnership, yesterday fuelled a further rally in Olivetti shares.

After rising by nearly 14 per cent on Friday, the shares gained nearly 10 per cent yesterday in Milan to close at L2,500.

Mannesmann yesterday declined to comment on the reports of its plan to acquire a stake in Olivetti. However, Mr Colaninno told the Financial Times earlier this month that he would welcome such an investment.

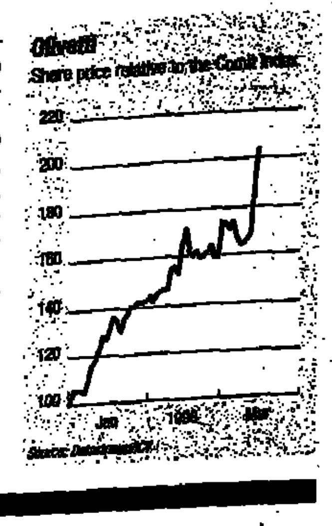
Adding further support to Olivetti shares is the expectation that Carlo De Benedetti, former Olivetti chairman and chief executive, will soon sell his remaining 4.7 per cent stake in the company.

Mr De Benedetti confirmed this month that he intended to dispose of his remaining stake in the company he ran for nearly 20 years.

The market considers that this may provide Mannesmann with an opportunity to acquire a direct shareholding in the company to cement its new Italian telecommunications interests.

The sharp share rise also reflects Olivetti's turnround, engineered by Mr Colaninno, and the imminent streamlining of its telecommunications holding companies.

This month Olivetti also finalised the sale of its Olsy information technology service and systems subsidiary to Wang Laboratories, in exchange for an 18.6 per cent stake in the US company and a cash consideration.



Stora's homespun remedies go against the industry grain

The Swedish forestry company's new chief executive has promised to double profits within three years, writes **Greg McIvor**

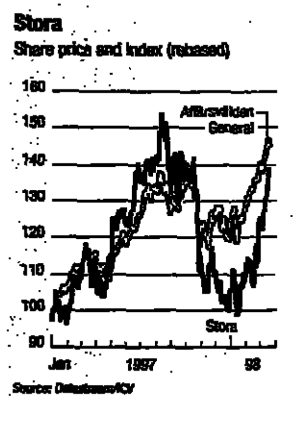
Björn Hägglund is not a man to hang around. Upon taking over as chief executive of Stora last week he declared war on costs and pledged to double the Swedish forestry group's profits within three years.

Cynics may have whispered that Stora's previous management made similar promises, but Mr Hägglund's sense of urgency went down well with investors at the company's annual meeting last week.

His impatience is understandable. From being Europe's largest paper company at the start of the decade, Stora has slipped behind other Nordic rivals. It is now the continent's fourth largest producer, behind UPM-Kymmene and Enso of Finland and SCA of Sweden.

More alarmingly, Stora's operating performance has also stagnated. Return on capital employed has averaged 7.5 per cent since 1990, below the levels of European market leaders.

Mr Hägglund, formerly head of Stora's forest and timber division, plans to rectify that. But while industry speculation has been of a big merger or acquisition to achieve cost savings and generate economies of scale, the new chief executive prefers internal measures and organic expansion.



His plan is to increase operating earnings by SKr3.5bn ($443m) a year by the end of 2000 through internal efficiencies, cost-cutting and growth. Stora made operating profits of SKr3.2bn last year on sales of SKr44.5bn.

"Small investments can give a rate of return of several hundred per cent," Mr Hägglund says, explaining how cutting machines can be programmed to remove less bark from raw timber and thus increase wood yields.

In an industry where big is regarded as synonymous with best, reliance on homespun remedies contradicts prevailing trends. The long-fragmented forestry sector is beginning to globalise, and size is seen by many companies as vital to guarantee international reach.


Building for the future: Stora aims to lift earnings by cutting costs

Mirroring this, the wave of merger and acquisition activity which has swept Europe in recent years is engulfing North America. Last week Bowater, the US newsprint and pulp producer, agreed to buy Avenor of Canada for $2.4bn.

But Mr Hägglund voices suspicions about the benefits of such musical chairs. "Consolidation can be good in many instances but it must create shareholder value, and not just in the first week when an announcement is made. We can still get a lot out of our existing resources."

Furthermore, he says, Stora already has an international presence through its large magazine paper mill at Port Hawkesbury in Canada and its projects to produce short-fibre pulp in Brazil and fine paper in China.

Mr Hägglund's merger reservations are echoed by Peder Hasslev, forestry analyst at Deutsche Morgan Grenfell in Stockholm. He predicts Stora's decision to eschew consolidation may hurt its share price, but suggests focusing on boosting operating efficiency is a sound approach.

"Investors like to see big mergers and big headlines but what really counts is the cost of production. Everyone talks about globalisation, but it does not matter if all your mills are located in the north of Sweden, as long as you have the lowest production costs," he says.

Others see it differently. Lars Kjellberg, director of European pulp and paper research at Credit Suisse First Boston in London, believes Mr Hägglund's goals are realistic but fears Stora may fall behind competitors while fulfilling them.

"Time is running and everyone is thinking about consolidation," he says.

Mr Hägglund's problem is that his efficiency/growth package will only bring Stora back to where it should already be today.

Analysts say its operations are spread across too many grades. These range from timber and market pulp production to packaging, newsprint and fine paper.

The industry norm is increasingly for the largest producers to specialise in fewer segments rather than maintaining a full "palette".

Mr Hägglund insists only 5 per cent of Stora's mills, producing specialty papers and fine paper from recycled pulp, are non-core.

He declines to say to what extent his strategy has been agreed with Investor, the main investment vehicle of Sweden's Wallenberg family, which is Stora's largest shareholder. Percy Barnevik, Investor chairman, has vowed to root out underachievers in the Investor portfolio. Along with other shareholders, he will be watching the outcome of Mr Hägglund's reforms.

GAB ROBINS LOSS-ADJUSTING UNIT TO BE MANAGED FROM NEW YORK

Shake-up at SGS may herald disposal

By William Hall in Geneva

Société Générale de Surveillance, the world's biggest testing and inspection company, is facing increasing pressure to sell GAB Robins, its poorly performing North American-based loss adjusting business.

SGS, which last week reported its first profit decline in seven years, disclosed yesterday that it had separated GAB Robins from SGS's traditional geographical management matrix, and its worldwide operations would now be managed separately out of New York. The move was part of an effort to improve transparency of the underlying performance of SGS's main profit centres.

However, analysts believe it could mark the first step towards an eventual sale of GAB Robins, the second largest US loss adjuster behind Crawford-THG, which recently merged with Thomas Howell Group, a UK loss adjuster.

SGS's loss-adjusting business has never made adequate returns since it was acquired in the mid-1980s.

It increased 1997 revenues by 16 per cent to SFr637m ($431.5m), but after currency effects there was no underlying growth and operating margins of 2.6 per cent compared with margins of close to 20 per cent in SGS's core inspection business.

Simon Marshall-Lockyer, of NatWest Markets in Zurich, said it would make sense to sell the business as soon as possible. There was no strategic fit with the rest of SGS and prices for financial assets, particularly US assets, were "sky-high" currently. While the business was recovering, it was never going to match the returns in SGS's core inspection and testing business.

Tony Czura, 40, credited with turning round the rest of SGS's North American operations, said the main reason for the continuing poor performance of SGS's insurance services was the exceptionally mild winter in the US, which accounts for about three-quarters of GAB Robins' revenues.

Last year had been the mildest winter since 1987, when the business had lost more than SFr10m. The fact that GAB Robins made operating profits of SFr16.3m last year showed that there had been an improvement. However, Mr Czura admitted that margins were unlikely to recover to more than 8 per cent. The insurance industry was globalising rapidly and it was increasingly clear that SGS's loss adjusting business had to have to have a "global response", a better focus, and needed to "beef up its management".

Elisabeth Salina Amorini, SGS chairman, said that fixing SGS's insurance business was the last unfinished piece of business dating back to the previous management's North American diversification strategy, which had been a "unmitigated disaster". She said there was no "quick fix" and the turnound had taken longer than expected. However, SGS was determined to reap "the fruits of the huge management effort we have put into it. That's why we have kept it."

Asia concerns concentrate LVMH investors' minds

The region accounts for 40% of the French group's annual sales, writes David Owen

One word looks set to dominate discussion of today's annual results presentation by LVMH, the French luxury goods group. That word is Asia.

The company has heavy exposure to the crisis-hit region, which accounts for about 40 per cent of its FFr48bn ($7.9bn) in annual sales. This exposure increased following the FFr13bn purchase in late 1996 of 61.25 per cent of DFS, a duty-free shopping chain, most of whose business is done around the Pacific.

The crisis has left this acquisition looking severely ill-timed, although analysts do not fault the broader strategy that underpinned it.

"It is interesting to integrate the distribution margin and to be closer to the consumer," says Jacques-Franck Dossin, a London-based analyst with Goldman Sachs. "It is a good strategy, but the timing was very bad. This acquisition is bound to be value destroying for some years."

LVMH has already acknowledged the bad news, to the extent of disclosing that DFS was affected by the decline in Japanese tourism in Asia, with 1997 sales totalling FFr13.42bn, down 4 per cent from the previous year.

What observers will today be seeking is an idea of how the chain has performed since the start of this year and how management is limiting any damage.

Bernard Arnault, LVMH chairman, reels off four ways in which overheads are being reduced – by renegotiating rents, cutting head office staff, adjusting sales forces and reducing stocks.

"If the situation in Asia remains as it is today, DFS should make a profit in the first half of 1998 – a weak profit, but a profit nonetheless," he says.

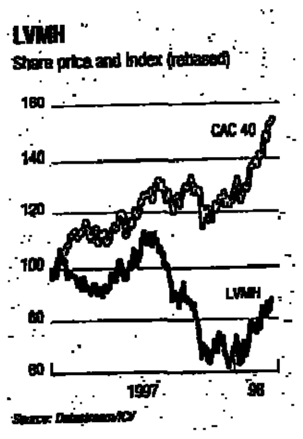
On a more offensive note, DFS is being given the opportunity to develop activities outside the Asian zone. In North America, the chain is to be responsible for opening 15 Sephora outlets in 1998. Sephora, Europe's second-largest perfumes and beauty products retailer, was acquired for FFr1.6bn in July last year. "We would not have been able to develop Sephora outside Europe without DFS," Mr Arnault says.

Bernard Arnault: 'explosion of successive bubbles' Picture: Sygma

There are even expansion plans in Asia itself. The LVMH chairman says DFS expects to start an operation in South Korea with a local partner in the second half of this year. The movement of tourists here has already picked up.

On the region in general, Mr Arnault argues that the reduction in the number of tourists is not attributable to the financial crisis alone.

Also to blame were last year's smoke problem, Hong Kong's chicken flu, Guam's typhoons and the handover of Hong Kong to China – which, he says, was accompanied by an increase in hotel room rates that was not reversed later in the year and has made Hong Kong expensive to visit.



"In two to three years, we will say growth in Asia has become more solid. What we have witnessed is the explosion of successive bubbles. I think the growth potential remains very considerable."

The effect of the crisis on LVMH, he argues, is "mainly through DFS". He emphasises that, while 40 per cent of group turnover comes from Asia, about 24 per cent comes from Japan.

"Since the bubble burst there four or five years ago, the economy has grown only slowly, yet, except for cognac, which was sold a lot in expense-account bars, our products have developed."

New Belgian group valued at BFr510bn

By Neil Buckley in Brussels

The financial services group which will be formed by the merger of Belgium's Kredietbank, Cera Bank and ABB Insurance will be Belgium's biggest company by market capitalisation, the partners forecast yesterday.

On the basis of the deal's structure, and the number of new shares issued multiplied by last week's share prices, the new group's capitalisation would be BFr510.5bn (US$13.6bn), putting it slightly ahead of Electrabel, the electricity monopoly, at BFr501bn.

The three-way deal was announced in January, but the need to value co-operative and partly family-owned businesses meant the partners could not give full details until yesterday.

The announcement made clear the extent to which the balance of power in Belgian financial services will shift to Flanders, Belgium's Dutch-speaking northern half, where the companies involved are based.

The news may increase pressure on Générale de Banque, Belgium's biggest bank, to find a partner, by exposing how far it will be eclipsed by the Flemish group. Générale is Belgium's seventh-largest company, with a market capitalisation of BFr307.3bn.

Through a series of restructurings, the Flemish partners will create a new holding company, BV Holding, that will have banking and insurance arms and take Kredietbank's place on the Brussels bourse. Kredietbank shareholders will be invited to exchange their shares for BV shares.

The banking arm, initially known as KB Cera New, will incorporate the banking businesses of Kredietbank and Cera, as well as Bank van Roeselare, KB's Belgian subsidiary. A new name for the division will be announced in June.

The insurance arm, ABB New, will group together ABB and other insurance businesses controlled by Cera and Almanij, the holding company which is KB's biggest shareholder.

Almanij will eventually be left with 66.8 per cent of the BV Holding. Management and co-operative shareholders in Cera will in turn hold 38 per cent of Almanij. The Boerenbond, the farming co-operative which owns stakes in both Cera and ABB, will be left with 18.9 per cent of Almanij.

Valuations of the groups involved in the deal by Salomon Smith Barney, as at December 31 1997, put ABB at BFr117.8bn, Almanij at BFr179bn, Cera Bank at BFr153bn (excluding its stake in ABB) and Kredietbank at BFr261.7bn. On this basis, the new BV holding would be worth BFr490bn and Almanij's stake in it BFr327bn.

NEWS DIGEST

FRANCE

Crédit Mutuel pledges to float part of CIC

Crédit Mutuel would float a "significant proportion" of CIC, the French state-owned regional banking group, on the stock market if it gained control in the privatisation currently under way. Etienne Pflimlin, chairman, said yesterday he would also consider opening up some of the capital in the 10 individual regional banks in the CIC group to outside investors. Mr Pflimlin said there was little overlap between CIC and Crédit Mutuel's operations. **Andrew Jack, Paris**

PRIVATISATION

Bucharest selects advisers

Bank of America and Central Europe Trust have been selected to advise the Romanian government in privatising 10 companies across a range of industrial sectors, amid signs that the country's privatisation programme is continuing in spite of its political problems. The companies, which the banks said had aggregate book value of $450m, are in the engineering, steel, automotive and pulp and paper industries and are to be disposed of in trade sales. **Vincent Boland**

TURKEY

Akbank $136.6m offering

Senior managers at Akbank, one of Turkey's largest banks, yesterday said that an international secondary offering of 3.5 per cent of its equity scheduled for the end of this month will raise substantially more than previously reported unofficial estimates of $120m. Akbank's share price closed unchanged at TL18,500 in Istanbul yesterday, giving it a market capitalisation of $3.90bn. This indicates that the bank would raise $136.6m from a sale of 3.5 per cent of its equity at current prices. **John Barham, Ankara**

Staveley warns of £74m losses

By Jonathan Ford

Staveley Industries, the underperforming UK industrial group, yesterday warned shareholders it would make a pre-tax loss of some £74m ($124m) following the sale of two subsidiaries. The group, which has been under pressure from shareholders since failing to find a trade buyer for the businesses last November, also announced the departure of Roy Hitchens, its chief executive.

Staveley is selling Weigh-Tronix and Chronos Richardson, which make measurement instruments, to their respective managements for net cash of £40m.

Staveley said the disposals would give rise to a £79.8m exceptional charge after writing back £56.2m of goodwill previously written off.

As a result, it expects to report a pre-tax loss of £74m in the year ending March 28. Pre-exceptional profits are expected to be "not less than £9.4m", against profits of £21.3m. The shares fell 9½p to 122p.

Following the disposals, Harry Tuley, chairman, said Staveley would review how it could maximise value, including the possible sale of the group. "Nothing is being ruled out," he said.

Mr Tuley said Mr Hitchens had decided to go partly because the group would be far smaller once the disposals had been completed.

Mr Hitchens had also come under pressure from shareholders about the poor performance of the measurements businesses.

A new chief executive is being sought.

Weigh-Tronix, which makes industrial weighing equipment, is being sold for £44m cash to a buy-out team backed by the US venture capital fund, Berkshire Partners. Chronos Richardson, a maker of bagging systems, is being sold for £5m, £2m in preference shares and £3m in cash to be deferred. Following the sale, Staveley will have further exposure of £7.4m in guarantees and loans.

Both businesses faced difficult trading conditions last year. Weigh-Tronix, which made operating profits of £5.2m in the year to March 31, 1997, has struggled to break even since then. Chronos Richardson has been heavily lossmaking.

The disposals represent the culmination of a difficult period for Staveley, during which time the shares have fallen by more than a third.

The group had announced its intention to sell its measurement division – including both Weigh-Tronix and Chronos – last April following a review.

UK radio holdings to be put up for sale

By Cathy Newman

CLT-UFA, the European broadcaster, has appointed Lehman Brothers, the US investment bank, to sell its UK radio interests.

CLT-UFA, which owns a majority stake in Talk Radio, a UK national station, is jointly owned by Bertelsmann, the German media company and Audiofina, the Belgian media group.

Jean-Michel Kerdraon, director of radio at CLT-UFA, said the company may now sell interests including a 63.2 per cent stake in Talk Radio, and RTL Country, a country music station broadcasting in London, despite previous denials of plans to sell.

CLT-UFA, based in Luxembourg, is the largest broadcaster in Europe.

Its other interests include a 15 per cent share of XFM, the pop music station for 15 to 35-year-olds, and 80 per cent of Atlantic 252, which does not have a British licence but transmits to the UK from Eire.

The stakes for sale could be worth £60m ($102m). The group's 29 per cent stake in Channel 5, a television station, is not in the sale plans.

CLT-UFA, which has 22 television stations and 22 radio stations in nine European countries, said yesterday that it was "considering [its] options".

It added: "We're not in a hurry about this and there are no concrete negotiations with possible partners."

MVI, the venture capital group that owns 35 per cent of Talk, is thought to be mulling a takeover of the rest of CLT-UFA's UK radio interests.

Meanwhile, Scottish Media Group, the newspaper publisher and broadcaster which recently indicated it was keen to expand outside Scotland, is likely to take a close look at CLT-UFA's assets.

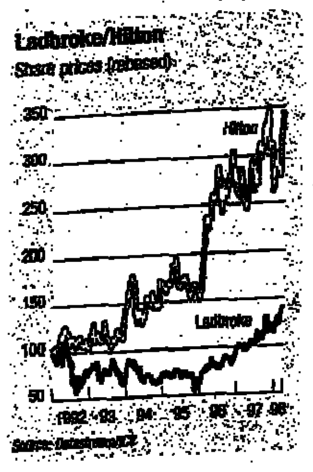
It said last week it could raise up to £300m for acquisitions.

Emap Radio and Capital Radio would be expected to take an interest in Atlantic. However, Capital could be deterred from bidding for Talk because its bid for Virgin Radio, another national station, was referred to the Monopolies and Mergers Commission.

Scottish Radio Holdings, recently outbid by Emap for Melody Radio, could bid for some of CLT-UFA's radio shareholdings.

COMMENT

Ladbroke/Hilton



What are the odds on two domestic demergers combined with a trans-Atlantic merger? Still long, but getting shorter. If Hilton's talks with Circus Circus Enterprises over demerging its gaming business are successful, the resultant pure hotels company will be under pressure to reunite the Hilton brand. Existing plans for co-operation with Ladbroke – which uses the Hilton name outside the US – pale beside the value a single company structure could create. Obvious overlaps such as central costs could be slashed, brand promotion enhanced and acquisition opportunities pursued more vigorously – they missed out on Inter-Continental and ITT Corp.

A prospective merger might prompt Ladbroke to spin off its retail betting and gaming business. There is little reason for these to co-exist with Ladbroke's hotels. In the UK, at least, where the recent acquisition of the bookmaking chain Coral seems likely to be referred to the Monopolies and Mergers Commission, this division's growth prospects do not look bright for competition reasons. But a mauling at the MMC might have a silver lining. If it pushes Ladbroke into Hilton's embrace, shareholders should be more than happy.

BTR

It is a sign of the competitiveness of the UK management buy-out market that CVC has gone shopping on the other side of the world. Australia is one hop too far for most of its rivals. The £650m paid to BTR for its Australian building products and Formica businesses – representing 10 times 1997 operating profits and less than once sales – may not look too demanding. But CVC will need a sustained recovery in the Australian economy, combined with judicious acquisitions, to help it achieve its usual 25 per cent returns.

For BTR, the deal is not as eye-catching as its last sell-off, clinched at more than twice sales. And the exit from Formica should be particularly humbling. The US-based business was acquired for some £400m in 1995, of which more than £200m was goodwill. BTR would only describe the fall in Formica earnings from 1996 to 1997 as "substantial". After writing back £600m of goodwill in total for Formica and ABP, the loss on disposal will be £520m. No wonder shareholders are nervous when BTR has cash to spend.

Sun Life merger savings at £40m

By Christopher Adams

Savings from last year's merger with Axa Equity & Law are set to exceed expectations, Sun Life & Provincial Holdings, the UK insurance arm of Axa, said yesterday.

Reporting an increase of 14 per cent in pro forma operating profits from £248.8m to £284.5m ($475m) for 1997, ahead of most analysts' expectations, Sun Life said it would achieve annual cost savings of at least £40m.

It said the merger had not affected new business sales, which rose 14 per cent against an industry average of about 10 per cent. The shares rose 20p to 580p.

Pre-tax profits of £337.7m (£219.6m) included several exceptional items; the group benefited from a profit of £112m on the sale of New Ireland Holdings to the Bank of Ireland in October, but incurred integration costs of £42.5m.

Mark Wood, chief executive, cautioned that competition in life assurance and pensions, which accounted for 85 per cent of turnover, had increased with the number of new entrants. This was intensifying pressure to reduce costs and it would be difficult to maintain margins.

The group planned to spend £8m on a television advertising campaign as part of efforts by French parent Axa to promote a single brand worldwide. It was also looking at ways to better exploit other sales channels, including telephone and internet.

Overall, profits from the life and pensions business rose 11 per cent to £175.7m.

Pearson purchasing power rises

By John Gapper, Media Editor

Pearson, the owner of the Financial Times, yesterday indicated that it was prepared to make a large acquisition to reinforce its publishing and entertainment operations after gaining £540m ($901m) from asset sales over the past year.

The company said it had "considerable firepower" after the sale of passive investments and businesses that lacked scale. Analysts estimated it could spend up to £1.2bn while maintaining adequate interest cover.

Marjorie Scardino, chief executive, declined to speculate on possible bid targets, although Pearson is thought to be interested in parts of the Simon & Schuster specialist publishing operations being sold by Viacom, the US group.

Pre-tax profits continued to be affected by restructuring. In the year to December 31 they fell to £128.6m (£356.8m) after net exceptional charges of £157.3m, including a £212m loss on the sale of Mindscape, the computer games arm.

The 1996 figure benefited from a net £106m exceptional gain, including a £231.3m profit on the sale of Westminster Press and a £100m charge related to accounting irregularities at Penguin, the book publisher.

Operating profits rose from £247.6m to £330.9m.

Ms Scardino said Pearson intended to continue disposing of passive minority stakes, but indicated that it would keep its 50 per cent stake in Lazard Partners, the investment banking firm, until it could avoid diluting earnings. Lazards, which contributed £43.1m (£40.8m), has first option to buy Pearson's stake if it sells.

The shares closed 16p lower at 950p yesterday.

Of the £540m raised through disposals, £440m has been committed to reinforcing operations through investment and acquisitions. Ms Scardino said Pearson had earmarked £90m for investment in publishing and entertainment in Spain.

Group turnover rose 5 per cent to £2.3bn (£2.2bn).

Marjorie Scardino: declined to speculate on bid targets Brendan Corr

RESULTS

Company	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airtech	Yr to Dec 31	21.3	(8.22)	0.254♠	(0.669L♠)	0.23†	(2.27L)	-	-	-	-	-
Anglo Pacific	Yr to Dec 31	4.02	(3.28)	2.34♥	(0.466♥)	2.44†	(0.04L)	nil	-	nil	nil	nil
ASW	Yr to Dec 31	484.5	(531.8)	5.8L♥	(51.7L♠)	6.9L	(61.9L)	nil	-	nil	nil	nil
Brandon Hire	Yr to Dec 31	23.4	(21.9)	2.38	(1.73♠)	10	(7.1)	2.15	Apr 30	1.8	3.25	2.7
Bunzl	Yr to Dec 31	1,753	(1,798)	125.9	(113.5)	17.9	(16.4)	4.5大	July 1	4.1	6.8大	6.3
Coutts (CA) ◊	Yr to Dec 27	26.7	(19.6)	2.02	(1.52)	12.9†	(10.6)	2.7	May 13	2.25	3.6	3
Emess	Yr to Dec 31	177.4	(178.4)	10	(8.2)	2.4	(1.3)	0.6	May 28	0.4	0.6	0.4
English China Clays	Yr to Dec 31	845.3	(846.3)	88.5	(42.9L♠)	21.76	(18.83L)	7.5	June 9	7	13	12.5
Fairey	Yr to Dec 31 ★	320.7	(246.8)	52.2	(44)	35.8	(32)	6.85	June 12	6.15	10	9
Fife Indmar	Yr to Dec 31	39.3	(34.3)	1.2	(1.2)	8.85	(8.62)	2.6	May 11	2.3	3.7	3.3
Gibbs and Dandy	Yr to Dec 31	38.6	(29.3)	1.27♠	(1.21)	10.8	(10.4)	2.4	May 8	2.25	4	3.75
Global	Yr to Dec 31	130.6	(148.2)	1.65L♠	(4.16)	1.51L	(1.87)	0.47	May 29	0.44	0.7	0.65
Gowrings	Yr to Dec 31	78.9	(65.7)	1.4	(0.718♥)	10.58	(5.49)	2.4	May 8	2	3.5	3
Groupe Chez Gérard	6 mths to Dec 28	13.4	(8.8)	1.76	(1.21)	7.2	(6.1)	1.15	May 26	1	-	3.2
Hammerson	Yr to Dec 31	122.7□	(121.6□)	61.7	(70♥)	15.8	(18.9)	8.1#	June 1	7.5	11.9	11.2
Hurlingham Props ◊	6 mths to Nov 30	0.053□	(0.057□)	0.013	(0.011)	0.68	(0.53)	-	-	-	-	-
Hydro Intl	Yr to Dec 31	3.53	(3.13)	0.031♠	(0.885L)	0.23	(5.21L)	-	-	-	-	-
Ideal Hardware	6 mths to Jan 31	110.4	(82.8)	4.91♥	(4.14)	16.3	(12.88)	5.75	Apr 24	5.2	-	16.2§
Lavendon	Yr to Dec 31	23.2	(13.2)	4.81	(2.71)	16.18†	(13.76)	2.6	June 1	1.13	3.9	1.13
Marshalls	Yr to Dec 31 大	241.3	(234)	14.5♠	(20.2♠)	2.57	(8.34)	2.5	July 1	3.7	4.5§	5.2§§
Metalrax	Yr to Dec 31	101.3	(96.6)	13.2	(11.5)	7.36	(6.2)	3.15	May 29	2.73*	4.15*	3.64*
Metsec	Yr to Dec 31	69.1	(63)	4.15♠	(3.44)	17.98	(14.9)	3.5	July 1	2.8	5	4
Pearson	Yr to Dec 31	2,293	(2,186)	128.6♠	(356.8♥)	6.7†	(42.9)	12	June 5	11.1	19.5	18
Perry	Yr to Dec 31	517.5	(456.4)	10.05	(8.28)	25.6	(21.1)	6.05	July 1	5.75	9.5	9
Spirax-Sarco	Yr to Dec 31	265.6	(272)	47.7	(47.1)	38.3	(38)	11	May 26	10.3	15.8大大	14.8
Sun Life	Yr to Dec 31 大	-	(-)	337.7♥	(219.6)	26.8	(17.6)	7.9	May 22	6.78	11.7	6.78
Wellington	Yr to Dec 31	60.2	(57.8)	2.82♠	(5.78)	8.15	(17)	5.6	May 28	5.4	8.3	8.1
Vanguard Medica	Yr to Dec 31	1.55	(0.595)	21.2L	(11L)	65L†	(53L)	-	-	-	-	-

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alliance Trust	Yr to Jan 31	3,097	(2,688)	32.9	(30.2)	65.28	(59.85)	40.5	Apr 24	38.5	59	55.5
Perpetual UK Small	Yr to Jan 31	372.9	(352.4)	1.1	(1.57)	7.8	(11.2)	7	Apr 29	9.6	7	9.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. 大Foreign income dividend. 大大Includes FID element. ◊Aim stock. ★Comparatives restated. □Rental income. #Scrip dividend enhanced by 0.5p also available. §For 15 months. 大Pro forma. §§For nine months. *After adjustment for scrip issue.

Emerson calls off Astec discussions

By Andrew Edgecliffe-Johnson

Emerson Electric, the US electronics group which holds a controlling stake in Astec (BSR), yesterday terminated talks about a possible bid for the 48.9 per cent it does not own.

The US group, which mooted a bid in January at the market price of 111p, said it had been unable to secure a recommendation from the independent non-executive directors. The shares slipped 4p to 117p.

Emerson also claimed its fourth scalp among the power convertor manufacturer's independent directors as it announced the replacement of Brian Christopher, Astec's independent chairman, with its own vice-chairman, James G Berges.

The move came a week after Emerson voted three independent executive directors – Neal Stewart, Michael Arrowsmith and Michael Smith – off the board.

A statement from Astec said Mr Christopher had "resigned following consultation with the company's majority shareholder.

"We reconstituted the board to reflect the ownership structure," Emerson said yesterday.

The litigating minority investors said: This behaviour is typical of the bullying and coercive nature of Emerson's approach."

BEST PRACTICE IN-HOUSE COUNSEL

A strategic and global brief

The structure of company legal departments is more fluid, says **Robert Rice**

The recession of the early 1990s proved a watershed for Europe's in-house corporate counsel. Throughout the 1980s lawyers working within commerce and industry were regarded as the Cinderellas of the profession. But in the cost conscious, post-recession era all that began to change.

As companies looked for savings and efficiencies their gaze eventually settled on legal spending and the organisation and management of their in-house legal departments.

Relationships with external legal advisers came under scrutiny as they reappraised the split between work to be handled internally and work to be outsourced. And the quality and status of in-house counsel began to rise.

The restructuring of company legal departments and the changing role of in-house counsel has been monitored closely by European Counsel 3000, a handbook for lawyers working in Europe's leading companies, published by specialist legal publisher PLC Publications.

As part of the handbook, PLC carries out an annual best practice survey of general counsel and the 1998 survey has just been published.

Europe's legal departments tend to be relatively small, particularly compared with their American counterparts. The average number of lawyers in a legal department of a European company is five and the typical number of lawyers employed by the company worldwide, 15.

But the authors note many departments are much larger, with 30 per cent of respondents having more than 30 lawyers in worldwide operations.

Generally, the structure of departments has become more fluid. Traditionally, European companies organised their legal departments along national lines, with small departments in each country of operation. The trend towards globalisation, however, means there is less reason for having separate national departments, the authors say, and some companies have now regrouped their lawyers according to product divisions.

These days most general counsel report either to the chief executive or chairman, reflecting their new-found status. Reporting to the company's senior officer suggests their role has become more strategic than functional.

But, although they are increasingly assuming board level responsibilities and authority, most general counsel do not sit on the board. Practice varies from country to country. In France, for example, 73 per cent of general counsel are board directors, whereas in the UK only 6 per cent are on the board.

Although they are increasingly assuming board level responsibilities and authority, most general counsel do not sit on the board

The reason most do not sit on the board is because of the potential conflict between a director's commercial role and the traditional role of general counsel in acting as the company's independent legal adviser.

For most companies, legal spending represents between 0.05 per cent and 0.15 per cent of turnover, although there are variations related to different sectors.

There are also huge differences in legal costs per company employee. The highest figure revealed by the survey was $5,000 (£3,000) per employee and the lowest, $5. Again, the most influential factor was industry sector.

Are legal costs rising? Most respondents to the 1998 survey said they were, and attributed the rise in total costs to an increase in the cost of external legal advice.

Looking at internal costs, Switzerland emerges as the most expensive place to base an in-house lawyer while the Scandinavian countries are the cheapest – although only in the Netherlands and Belgium does the total in-house cost per lawyer appear to have risen significantly this year.

The average hourly fee rate of an in-house lawyer also appears to be lower than in previous years. Benelux countries and the Netherlands have the highest average internal hourly fee rates at $182 and $194 respectively, but the US average of $155 is still higher than the European average.

The highest salaries quoted by respondents were about $400,000 for general counsel; $200,000 for senior lawyers; $120,000 for junior lawyers; and $55,000 for secretaries. In-house lawyers in Belgium were the best paid followed by lawyers in the UK, but a 1997 US Price Waterhouse Survey confirms that European counsel still lag behind their US counterparts. Almost 70 per cent of respondents are paid bonuses, with a typical bonus amounting to 15 per cent of salary.

Turning to external legal costs, the survey found that respondents typically outsource between 20-25 per cent of their total legal work, with UK and Scandinavian companies outsourcing the most and German companies outsourcing the least.

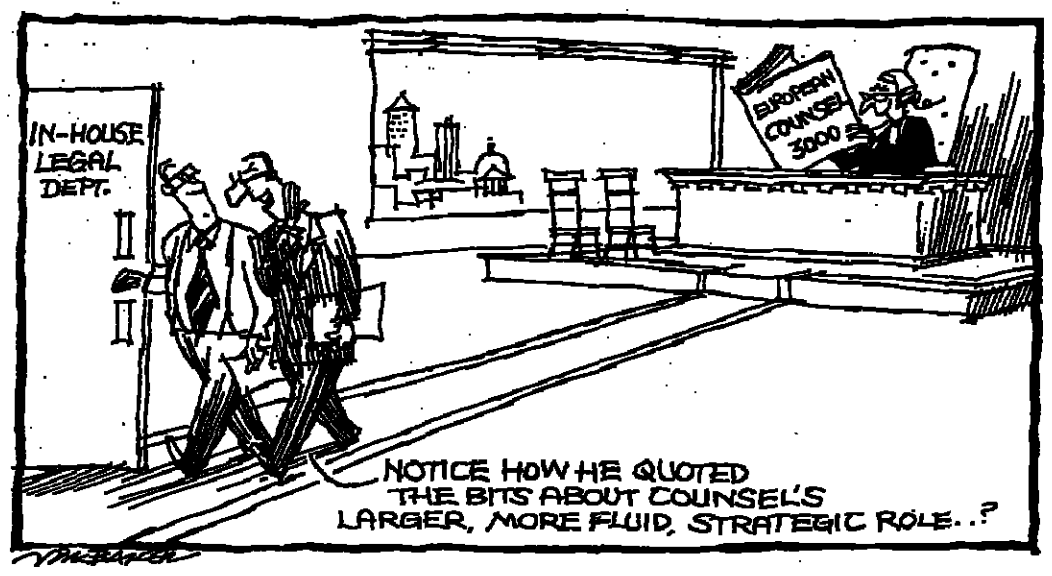
Compared with the 1997 survey respondents appear to be outsourcing less work. Nevertheless, as the market for external legal services has become more competitive the cost advantages of operating in-house have become less obvious.

In-house lawyers now concentrate more on the business-critical work where their knowledge of the business will improve the advice, and outsource the commodity work and one-off deals.

However, there still appear to be cost advantages to doing work internally. The average in-house hourly rate across Europe is lower than the average rate companies expect to pay law firms for standard advice ($112 compared to $200) and the in-house rate includes the cost of items which would normally be disbursements for which law firms charge extra.

Also, the percentage of the legal budget spent on external advice is disproportionate to the amount of work outsourced. On average European companies spend 34 per cent of their budget on getting 20 per cent of their work done by external lawyers.

On average the cost of external legal advice also appears to have risen. Specialist advice in the UK cost on average $425 an hour last year compared with $368 the year before. Only Finland is now more expensive than the UK for external legal advice.



Employment rights after liquidation

European court

The European Court of Justice last week issued a further judgment on the Acquired Rights Directive which deals with employment rights on the transfer of undertakings.

The case concerned a worker dismissed by a liquidator just before the company's remaining assets were transferred to a new owner.

The liquidation took place in Belgium under a Belgian legal procedure which did *not* amount to insolvency and which was regarded as primarily for the benefit of shareholders.

The Belgian court ruled that the transfer of assets amounted to a transfer of an undertaking, but questioned whether the directive applied to a transfer in the context of a liquidation.

Although clear that the directive does not apply in insolvency proceedings, the court felt the law was unclear in relation to other winding-up procedures. It referred the case to Luxembourg.

The European Court concluded from previous case law that the determining factor was the purpose of the procedure in question. Account should also be taken of whether the undertaking continued to trade.

The purpose of the Belgian procedure was realisation of the assets for the benefit of the shareholders. Any benefit to creditors was secondary. It was not a condition of putting a company into liquidation that its liabilities exceeded its assets. Also, although liquidation could precede insolvency, it could result when members of a company no longer wished to co-operate.

Moreover, given that the undertaking continued to trade and the business was transferred, there was no justification for denying workers their rights under the directive.

The Belgian court also asked a question concerning article 4(1) of the directive which states that while a transfer cannot constitute grounds for dismissal, it does not prevent dismissals for economic, technical or organisational reasons entailing changes in the workforce. The question was whether the article applied equally to the transferor as to the transferee.

The Court said employees whose contracts of employment were terminated prior to a transfer, contrary to article 4(1), must be regarded as still employed by the undertaking at the date of transfer, with the result that the employer's obligations were automatically transferred from the transferor to the transferee.

Accordingly, in so far as article 4(1) precludes dismissals solely by reason of a transfer, it does not restrict the power of a transferor any more than that of a transferee to effect dismissals for the reasons which it allows.

On the other hand, if an employee had been unlawfully dismissed by the transferor, he must be regarded as still employed by the undertaking on the date of the transfer.

Therefore, it followed that the contract of employment of a person unlawfully dismissed shortly before the transfer must be regarded as still existing as against the transferee, even if the dismissed employee was not taken on by him after the undertaking was transferred.

C-319/94: Jules Dethier Equipement SA v Jules Dassy and Sovam sprl, ECJ 6CH, March 12 1998.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Credit Suisse names Grübel

Credit Suisse, the second biggest Swiss bank, has replaced its head of private banking.

Oswald Grübel, 54, head of global trading at Credit Suisse First Boston (CSFB), the group's investment bank, takes over at the end of the month from Klaus Jenny, 55, who is quitting Credit Suisse after 25 years.

The departure of Jenny, who only took up his job at the start of 1997, means that Credit Suisse has replaced the heads of two of its five core businesses within the past two months.

At the start of the year Allen Wheat, 49, CSFB's chief operating officer, took over as chairman and chief executive of CSFB from Hans-Ulrich Doerig, 58, another Credit Suisse veteran, who became chief risk officer of the Credit Suisse Group.

Jenny has decided to pursue other interests outside Credit Suisse and was leaving on "the friendliest of terms".

The appointment of Grübel, a German, means that three out of the five heads of Credit Suisse's core divisions are now non-Swiss. His appointment also points up the growing synergies between private banking and investment banking. Grübel joined White Weld in 1970 and has spent all his career in investment banking.

Last July Swiss Bank Corporation appointed Rudi Bogni, an investment banker, to head its private banking business.

Grübel will not be directly replaced when he leaves London. Instead his responsibilities for equities, fixed income trading, foreign exchange, money markets, asset liability management and research will be directly subordinated to Wheat.
William Hall, Zurich

JCI Gold rises from the ashes

From the ashes of JCI, South Africa's first black-owned mining house which will be liquidated later this month, black shareholders have salvaged a new venture, JCI Gold.

The new company will be jointly controlled by the Kebble family, which backed the ill-fated acquisition of JCI by Mzi Khumalo, its former chairman, in November 1996. Khumalo quit JCI – and his partnership with the Kebbles – in January after a row over corporate governance.

His place in Consolidated African Mining, the vehicle for the pooled interests of Khumalo and the Kebble family, will be taken by the African Mining Group, a broad-based consortium of black investors.

The consortium was originally aligned with Khumalo, but was sidelined from his bid for Anglo American's controlling stake in JCI when the tumbling gold price scuppered its efforts to fund a stake in the century-old mining group.

Brett Kebble, chairman of JCI's gold division, will become deputy-chairman of JCI Gold. John Brownrigg, an old JCI hand who is currently running JCI's Western Areas mine, will be managing director of the new group. Wiseman Nkuhlu, a former head of the development Bank of South Africa, has been appointed chairman.

Consolidated African Mining's other interests include 34 per cent of Randgold, the marginal mining group which pioneered the current wave of reforms in the South African industry.

Roger Kebble, CAM chairman and father of Brett, last week succeeded Peter Flack as Randgold chairman.

He will explore closer ties between Randgold and JCI Gold, before stepping down from CAM to make way for a black chairman later this year.
Mark Ashurst, Johannesburg

Hirst moves on at Citibank

Citibank's global corporate banking ambitions mean that its regional heads appear to do little else than travel. Allan Hirst, who opened up most of central Asia for Citibank and has covered the bank's operations in central and eastern Europe since 1995 is no exception.

His days at dusty and exotic airport lounges are not yet over though as he has now been appointed to head Citibank's entire Middle East region as well as Pakistan and India.

Hirst handled his former job from Warsaw. The Polish capital thus acquired the status of a centre for a Citibank region which stretched from Kazakhstan and other central Asian "Stans" through the Ukraine and central Europe to Turkey, Israel and Pakistan.

The choice of Warsaw was a logical one as it was here that Hirst opened Citibank's successful local subsidiary in 1991.

Hirst, who spent the 1970s working for the Democratic party in Texas later sought refuge from politics with Citibank which he joined in 1981. Stints in Venezuela, Germany and the UK preceded his time in Poland where Citibank has accomplished the feat of acquiring a leading status among foreign banks without arousing the ire of the local competition.

Now that Hirst is focusing on most points between Nepal and Beirut his former beat has gone to Dipak K. Rastogi, who comes to the region from developing Citibank's derivatives activities as a co-head of Citibank's Global Markets activities.

He will no doubt soon learn that the trick of covering central Asia is to work out connections on airlines which fly western made aircraft, thus avoiding the stress inherent in flying Aeroflot.
Christopher Bobinski, Warsaw

● Salomon Smith Barney has appointed Mark Howdle director and pan-European strategist within the European equity research department in London. He joins from UBS where he was head of European equity strategy.

MOVING PLACES

● ANZ INVESTMENT BANK, the investment banking arm of Australia and New Zealand Banking Group, has appointed Philip Forrest head of ANZ Investment Bank, south-east Asia, from April 14. He joins from NatWest Markets, where he was managing director of south and south-east Asia for more than four years.

● LEHMAN BROTHERS has appointed Augusto Lopez-Claros senior international economist responsible for Russia. He joins from the International Monetary Fund where he monitored and reported to the IMF headquarters on the latest economic and political developments in Russia. He also provided liaison between the IMF and the Russian authorities on a broad range of economic policy issues, as well as providing macroeconomic policy advice.

● N M ROTHSCHILD & SONS has recruited three directors for its investment banking division in London, Rio de Janeiro and Frankfurt. Ion Bogdaneris, chief executive of GE Capital Bank in Scandinavia and previously director of European business development, will report to Richard Davey, head of investment banking in London and will help with the development of the business of the Rothschild Group in continental Europe. Stephan Krummer has been appointed a managing director of Rothschild GmbH in Frankfurt. He joins from Bertelsmann, where he was chief executive of the Bertelsmann Multimedia Group. Roberto Hesketh, formerly a director of Banco Graphus, has been appointed a director in Rio de Janeiro of NMR Consultoria Financeira.

● RCN CORPORATION has named Dennis Spina, former president and chief executive of Erol's Internet, a director and vice- chairman of RCN, as well as the company's president of internet services. RCN has also appointed Sal Quadrino, former chief financial officer of Erol's, as its chief administrative officer.

● AT&T-UNISOURCE COMMUNICATIONS SERVICES has appointed Dennis Roth as president and chief executive. Roth replaces Jim Cosgrove who returns to AT&T after completing his two-year secondment from AT&T. Roth has been heading AT&T's operating company in the UK since June 1997 and has played a key role in establishing AT&T's operations in the UK and Europe since his arrival in the UK in 1993.

● PHILIPS SEMICONDUCTORS has promoted Hein van der Zeeuw to business unit manager for Telecom Terminal ICs. In his new role van der Zeeuw, 43, will have worldwide responsibility for Philips Semiconductors' communications products.

● KENNET CAPITAL, the venture capital company that invests in European information and communications technology companies, has appointed David Carratt as a director of its investment team. He will focus on investments in the European software and services arena. Carratt is currently director of professional services for Sybase UK.

● SANTANDER INVESTMENT SECURITIES has appointed Bruce Stanforth as a vice-president focusing on Latin American corporate bond research, concentrating on media, pay-TV, telecommunications and banking. He joins from the Americas Trust Bank.

● SHELL COMPANIES in Singapore have appointed Lim Ngeok Yuen as its finance director. She succeeds Nigel Penny, who has taken up a new position with Shell International in London. Singapore-born Lim Ngeok Yuen has been cross-posted to Shell International in London since 1994.
Shell Companies in Singapore has also appointed Robert Craig as its new chemicals director. Craig, who has been vice-president South-East Asia Chemicals based in Singapore since September 1994, succeeds Roelf Venhuizen, who has taken up a new position in London as vice-president, operational excellence for Shell Chemicals Europe and Africa.

● KORN/FERRY INTERNATIONAL has appointed Kenneth MacLennan a partner in its worldwide financial services practice. He joins from Standard Chartered Bank.

● Mariano Favetto, 31, has joined CONILL ADVERTISING, the full-service Hispanic marketing agency of Saatchi & Saatchi, as chief creative officer. He comes from Lautrec Nazca Saatchi & Saatchi, the network's office in Argentina, where he was most recently creative director.

● THE ESTEE LAUDER COMPANIES has announced that Jeanette Sarkistan Wagner, currently president Estée Lauder International, has been appointed by the board of directors to the newly created position of vice-chairman, The Estée Lauder Companies.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Strong Emu sentiment buoys Europe

GOVERNMENT BONDS

By Simon Davies in London and Richard Tomkins in New York

European markets had a strong day, buoyed by pro-European monetary union sentiment following the latest currency adjustments in Ireland and Greece, and a resurgent US Treasury market.

Analysts said there were limited spill-over effects from the drachma devaluation and punt revaluation, but those two markets stormed higher.

Greek government bonds saw prices increase by about 10 per cent, with the yield spread against German bunds narrowing by more than 200 basis points at one stage.

David Keeble, bond strategist at Credit Suisse First Boston, said: "I think there are going to be a lot of people jumping on the bandwagon, but nobody is selling Greece, so it is rather hard to buy it."

The devaluation could increase inflationary pressure, limiting the potential for short-term interest rate cuts. However, it makes Greece a genuine convergence play again, and the longer maturities responded with enthusiasm.

The action in the Irish market was more at the short end of the yield curve, with the stronger punt making it easier for the government to bring down Irish interest rates towards those of Germany – the gap is currently more than 200 basis points.

Elsewhere in Europe, the markets were quieter. Andy Bevan, senior bond strategist at Goldman Sachs, said: "The European market is looking for fresh direction, and that is most likely to come from the US. But the US yield curve is so flat that it really needs some monetary easing to push the market much further. And we don't think the Fed is going to ease."

UK GILTS performed strongly on the eve of the Budget, with the June contract settling [illegible] higher at 108[illegible].

However, trading was extremely light, with just 43,000 contracts traded as many investors chose to stay on the sidelines awaiting the Budget, PSBR data and retail sales numbers, which are all due today.

The yield spread against bunds narrowed by three basis points to 114 points, buoyed by expectations of a prudent budget and expectations that Gordon Brown, chancellor of the exchequer, will emphasise the push towards a net redemption of gilts.

The new code for fiscal stability was also welcomed, although analysts suggested it would have little real impact.

GERMAN BUNDS rallied, although there was little news to drive activity. The June contract settled at 107.73, up 0.16 and just 0.06 off the day's high.

Philip Tyson, bond analyst at HSBC Markets, said: "The underlying tone remains bullish, but volumes were quite low. I think that the IFO business confidence survey on Friday could come in at the strong end of expectations, but I think that this will be a hiccup in the market, rather than a big correction."

There was a further flattening of the bund yield curve, but David Brown at Bear Stearns warned that Germany could be hit by an interest rate increase by early May.

"German headline inflation may be only as low as 1.1 per cent and falling, but it does not blot out the fact that it will very reluctant to leave anything to chance when it comes to future interest rate settings for the euro," he argued.

ITALIAN BTPs marginally underperformed bunds in the cash markets, with the yield spread widening one basis point to 33 points. The June future settled 0.08 higher at 119.25.

US TREASURIES opened stronger but backed away from their highs later in the morning as prices met technical resistance.

At noon, the benchmark 30-year bond was up ⅜ at 103⅞, yielding 5.87 per cent, and the 10-year note was up ⅛ at 99⅛, yielding 5.56 per cent. However, the two-year note lost its gains to trade unchanged at 100⅛, yielding 5.47 per cent.

The rise in Treasuries came in spite of an absence of fresh economic data. Traders said the market was taking its lead from the dollar, which had made substantial gains against the yen overnight on news that the Bank of Japan had appointed a new governor.

The market also appeared to suffer no adverse effects from the latest allegations of sexual misconduct against President Bill Clinton, made by a former White House intern named Kathleen Willey in a weekend television interview.

Although there were no releases of significant economic data driving the Treasury market yesterday, several statistics are due later this week, including February housing starts, industrial production and capacity utilisation today, and the latest trade figures on Thursday.

Hellenic Republic makes debut offering in euros

INTERNATIONAL BONDS

By Edward Luce

The Hellenic Republic yesterday capitalised on the publicity generated by its decision at the weekend to join the European exchange rate mechanism with its debut offering in euros.

The E1.5bn issue, which was increased owing to strong demand, was the third issue in euros this year by a European sovereign.

Unlike Italy and Spain, however, which launched 10-year and 31-year bonds respectively, the Greek issue was priced at an ample spread over the OAT benchmark due to the country's BBB-/Baa1 credit rating.

Some described the deal as generously priced, at a yield spread of 94 basis points over the OAT. "They could perhaps have priced it a little tighter after the positive news at the weekend," said one banker.

Nevertheless, the deal, which was lead-managed by Credit Suisse First Boston, Paribas and SBC Warburg Dillon Read, was clearly a significant issue in its own right.

"Greece is undoubtedly the next convergence play," said an official at one of the lead managers. "We had accounts which had never bought euros before and ones which had never bought Greece as a sovereign credit either."

The issue tightened by two basis points yesterday afternoon and the republic's benchmark 10-year dollar bond tightened sharply in response to the weekend's events.

Elsewhere, ENDESA, Spain's partially privatised electricity utility, made a benchmark offering in the dollar market with a five-year $500m issue. The bond, which was also Endesa's debut in dollars, was priced to yield 35 basis points over the Treasury and was lead-managed by Morgan Stanley.

CITICORP launched its first sterling bond since 1985 with a five-year £250m floating rate note. Barclays Capital, sole lead, said the bond was 100 per cent risk-weighted because it was issued by the holding company rather than the bank (which would have been 20 per cent weighted). It was re-offered at a margin of 12.5 basis points over Libor.

In the dollar markets, yield spreads continued their gentle drift wider, with AAA-rated names such as the World Bank nudging out a basis point or two in the five-year sector.

However, Federal Home Loans, which launched a $2bn three-year benchmark last week, saw its spread maintained at 13.75 basis points, compared with a launch spread of 14 points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
International Endesa	500	5.875	99.982R	Mar 2003	0.25R	+35(5⅞%-03)	Morgan Stanley DW
Helaba Finance	250	5.750	99.83R	Apr 2002	0.225R	+25(5⅞%-01)	ING Barings
Swedbank‡	200	(a)	100.025	Mar 2000	0.10	-	Salomon Smith Barney
D-MARKS							
SunAmerica Inst Funding III	400	5.125	99.244R	Apr 2008	0.325R	+35(6¼%-Jan08)	Paribas
BGB Finance Ireland(c)	250	5.375	99.68R	Apr 2010	0.35R	+55(6¼%-Jan08)	Goldman Sachs & Co
STERLING							
Citicorp‡	250	(b)	99.74R	Mar 2003	0.175R	-	Barclays Capital Group
FRENCH FRANCS							
BGB Finance Ireland(c)	1bn	5.375	99.636R	Apr 2010	0.36R	+45§	Morgan Stanley DW
SWISS FRANCS							
Abbey Natl Trsy Services	200	2.25	99.50	Apr 2005	2.50	-	Deutsche Morgan Grenfell
EUROS							
Hellenic Republic	1.5bn	5.75	99.60R	Mar 2008	0.375R	+94(5½%Apr08)	CSFB/Paribas/SBCWDR
Bank of Nova Scotia‡	250	(d)	99.859R	Apr 2001	0.125R	-	Société Générale
LUXEMBOURG FRANCS							
Crédit Local de France(f)	2bn	zero	100.00	Apr 2004	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) 3-mth Libor +5bp. c) FFr1bn and DM250m fungible upon Emu. d) 3-mth Libor flat. e) Pays in Ecu prior to Emu. Spread relates to French government Ecu bonds. f) Linked to Swiss Market Index: min 100%, max 170%. § Over interpolated yield. ¶ Long 1st coupon.

NEWS DIGEST

FRENCH RAILWAYS

RFF plans E1bn eurobond to broaden investor base

Réseau Ferré de France, the newly-created owner of the French railways' track, tunnels, bridges and signalling, yesterday unveiled plans to issue a E1bn eurobond within the next week or so.

The euro-denominated issue forms part of RFF's FFr15bn-FFr20bn funding programme for 1998, said Jean-Baptiste Massignon, chief financial officer. RFF expects to meet FFr12bn-FFr16bn of this year's financing needs from the international bond market, with remainder coming from domestic bonds issued in France and Switzerland.

The company will also launch a euro medium-term notes programme in May or June, which will allow it to make either private placements or eurobond issues more flexibly and more cheaply when market conditions permit.

RFF, which was split from French railway company SNCF in January 1997, wants to internationalise its investor base. It is being advised by SBC Warburg Dillon Read and Paribas.

The company inherited FFr134.2bn of debts from SNCF, two-thirds of the railway company's total. RFF is still fully owned by the French government, which guarantees its debt. It has been given an Aaa rating by Moody's Investors Service and AAA by Standard & Poor's.

The group's 1998 cash flow statement shows income of FFr31m, including a FFr10m capital injection from the government, an operating subsidy of FFr11.8m and income from access charges of FFr6.1m. Outgoings of FFr46.2m include maintenance of FFr16.6m, capital spending of FFr10.4m and interest charges of FFr10.2m.

Claude Martinand, chairman, said RFF hoped to balance future income and outgoings by increasing track access charges and reducing maintenance costs. **Charles Batchelor**

CREDIT DERIVATIVES

Survey sees $2,000bn market

The global market for credit derivatives could grow to as much as $2,000bn by 2000 in terms of underlying amount, according to a recent survey. The figures, published by Risk, the financial risk management magazine, are much higher than previous estimates.

Credit derivatives are privately negotiated transactions allowing traders and investors to protect themselves against, or speculate on, changes in a borrower's creditworthiness. A 1996 survey by the British Bankers Association estimated the size of the London market at $20bn and saw growth to $100bn by 2000.

The 29 banks and brokers surveyed by Risk, mainly in Europe and the US, estimated the current market at about $165bn. While most activity is concentrated in total return swaps and default swaps, options on credit spreads are expected to be the fastest growing sector.

The survey showed Europe was likely to overtake North America as the main trading centre, partly as a result of European monetary union. By removing opportunities to speculate on currency fluctuations and interest rate differentials, monetary union is expected to focus investors' efforts on analysing credit differentials. **Samer Iskandar**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 16	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.8690	5.01	+0.01	−0.16	−0.09	−1.74
	10/07	10.000	130.2562	5.79	+0.02	−0.23	-	−2.14
Austria	09/99	7.000	104.2600	4.01	−0.02	−0.02	−0.05	+0.20
	07/07	5.625	104.9800	4.94	−0.01	−0.08	−0.12	−0.73
Belgium	01/00	4.000	99.9800	4.02	-	-	+0.01	+0.18
	03/07	6.250	109.2900	4.96	−0.01	−0.06	−0.09	−0.87
Canada*	09/99	4.750	99.7200	4.95	−0.01	−0.06	−0.10	+0.47
	06/07	7.250	113.5000	5.35	−0.03	−0.16	−0.07	−1.18
Denmark	12/99	6.000	102.8900	4.15	−0.02	−0.06	-	+0.04
	11/07	7.000	114.0500	5.12	−0.02	−0.12	−0.18	−1.28
Finland	01/99	11.000	105.8050	3.54	−0.03	−0.12	−0.15	−0.16
	04/06	7.250	116.7224	4.85	−0.03	−0.11	−0.17	−1.13
France	01/00	4.000	100.1424	3.91	−0.01	−0.01	−0.05	+0.14
	10/04	6.750	111.9800	4.60	−0.01	−0.08	−0.10	−0.60
	10/07	5.500	104.6400	4.88	−0.02	−0.08	−0.13	−0.72
	10/25	6.000	108.0300	5.43	−0.02	−0.09	−0.13	−1.00
Germany	09/99	4.000	100.2600	3.80	-	−0.01	−0.04	+0.25
	11/04	7.500	115.8700	4.66	−0.01	−0.05	−0.09	−0.82
	07/07	6.000	108.3100	4.86	−0.05	−0.07	−0.11	−0.78
	07/27	6.500	115.4000	5.43	−0.01	−0.09	−0.12	−1.07
Ireland	04/99	6.250	101.8200	4.41	−0.21	−0.23	−0.42	−1.59
	08/06	8.000	120.0500	5.02	−0.06	−0.15	−0.21	−1.68
Italy	05/00	6.000	103.0400	4.49	+0.01	−0.02	−0.25	−2.86
	05/02	6.250	106.8200	4.69	-	−0.04	−0.22	−2.68
	07/07	6.750	111.9300	5.12	−0.01	−0.09	−0.19	−2.80
	11/26	7.250	122.8300	5.65	-	−0.10	−0.18	−2.92
Japan	03/00	6.400	111.5400	0.57	−0.02	+0.02	−0.18	+0.01
	12/02	4.800	116.8000	1.15	−0.03	−0.02	−0.20	−0.39
	09/05	3.000	110.1200	1.56	−0.05	−0.08	−0.21	−0.65
	09/17	3.000	109.3500	2.40	−0.04	−0.10	−0.18	−0.60
Netherlands	11/98	7.500	105.6100	3.91	−0.01	−0.02	−0.02	+0.08
	02/07	5.750	106.4500	4.84	−0.02	−0.06	−0.07	−0.78
New Zealand	02/00	6.500	98.2907	7.49	+0.03	−0.04	+0.08	−0.21
	11/06	8.000	107.4048	6.83	+0.02	−0.03	+0.07	−1.07
Norway	01/99	9.000	103.9000	4.31	-	+0.01	+0.14	+0.35
	01/07	6.750	110.6600	5.21	−0.02	−0.10	-	−0.71
Portugal	03/99	8.500	104.3621	4.01	-	−0.05	−0.16	−1.94
	02/07	6.625	111.2450	5.03	+0.01	−0.09	−0.17	−1.78
Spain	07/99	7.400	104.3001	4.07	-	−0.03	−0.25	−1.51
	03/07	7.350	118.5102	5.03	−0.01	−0.06	−0.16	−2.00
Sweden	01/99	11.000	105.0604	4.65	−0.01	−0.05	−0.05	−0.25
	08/07	8.000	119.8330	5.29	−0.02	−0.13	−0.20	−1.78
Switzerland	03/00	5.000	106.7700	1.50	+0.02	−0.08	+0.16	−0.21
	06/07	4.500	114.6800	2.68	+0.02	−0.19	−0.02	−0.92
UK	08/99	6.000	99.0781	6.69	−0.04	+0.08	+0.11	+0.09
	11/04	6.750	103.8125	6.06	−0.04	−0.03	+0.02	−1.16
	12/07	7.250	109.7578	5.91	−0.06	−0.07	−0.04	−1.43
	06/21	8.000	127.2734	5.84	−0.05	−0.10	−0.08	−1.68
US*	10/99	5.625	100.2030	5.49	−0.01	−0.09	+0.11	−0.86
	11/04	7.875	112.5160	5.60	−0.03	−0.14	+0.08	−0.92
	08/07	6.125	103.6410	5.62	−0.03	−0.12	+0.08	−1.07
	08/27	6.375	105.8910	5.88	−0.03	−0.11	−0.01	−1.06
ECU	01/00	4.000	99.8800	4.06	−0.01	−0.05	−0.19	−0.33
	04/07	5.500	103.9400	4.95	−0.02	−0.08	−0.14	−1.16

London closing. *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 16	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.79	+0.93	+0.24
Austria	4.94	+0.08	−0.61
Belgium	4.95	+0.09	−0.60
Canada	5.35	+0.49	−0.20
Denmark	5.11	+0.25	−0.44
Finland	4.85	−0.01	−0.70
France	4.88	+0.02	−0.67
Germany	4.86	-	−0.69
Ireland	5.01	+0.15	−0.54
Italy	5.12	+0.26	−0.43
Japan	1.56	−3.30	−3.99
Netherlands	4.84	−0.02	−0.71
New Zealand	6.83	+1.97	+1.28
Norway	5.21	+0.35	−0.34
Portugal	5.03	+0.17	−0.52
Spain	5.03	+0.17	−0.52
Sweden	5.27	+0.41	−0.28
Switzerland	2.68	−2.18	−2.87
UK	5.91	+1.05	+0.36
US	5.55	+0.69	-
ECU	4.95	+0.09	−0.60

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	104.70	104.59	+0.08	104.70	104.52	16,858	23,737
Jun	104.09	104.07	+0.15	104.17	104.04	47,152	107,157

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
102	2.06	2.16	2.29	0.01	0.12	0.25
103	1.11	1.34	1.52	0.07	0.30	0.48
104	0.38	0.69	0.90	0.33	0.64	0.86
105	0.06	0.28	0.47	1.01	1.23	1.41

Est. vol. total, Calls 15,331 Puts 16,527. Previous day's open int., Calls 60,272 Puts 67,408.

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.63	107.73	+0.16	107.79	107.56	56952	213069
Sep	107.21	107.29	+0.16	107.21	107.21	8	84

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
10750	0.41	0.72	0.93	1.16	0.18	0.49	0.70	1.37
10800	0.15	0.45	0.66	0.94	0.42	0.72	0.93	1.65
10850	0.04	0.27	0.46	0.75	0.81	1.04	1.23	1.96

Est. vol. total, Calls 13410 Puts 14775. Previous day's open int., Calls 221464 Puts 200779

NOTIONAL GERMAN BOND (BOBL) FUTURES

[illegible]

NOTIONAL GERMAN BOBL FUTURES (LIFFE)

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE)

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE)

[illegible]

NOTIONAL UK GILT FUTURES (LIFFE)

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE)

[illegible]

US

US TREASURY BOND FUTURES (CBT)

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE)

[illegible]

Ecu

ECU BOND FUTURES (MATIF)

[illegible]

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Drachma gains after double surprise

MARKETS REPORT

By Richard Adams

The Greek drachma's devaluation and entry into the European Exchange Rate Mechanism was given a guarded welcome by the international currency markets yesterday.

The weekend decision by the Greek government – alongside the Irish government's decision to revalue the punt by 3 per cent – to sign up to the ERM with the drachma well below its prevailing rate, caught the market by surprise.

Trading at its new central rate of Dr357 against the Ecu – 12.1 per cent below the Greek central bank's Friday afternoon fix of Dr313.7 – the drachma yesterday appreciated to Dr352. In later European trading it was Dr347.

Against the D-Mark, the drachma was firmer at Dr174.9, down from a session peak of Dr172.3. Late on Friday it traded at Dr170.

The boost to Greece's chances to joining the single currency, perhaps as soon as 2001, helped sentiment in favour of the drachma, dealers said. But others worried the devaluation's could cause inflation.

Inflation worries were also behind concern that the revaluation of the Irish punt by 3 per cent was not enough. Mark Cliffe, international economist at HSBC Markets, said the Irish revaluation paves the way for interest rate cuts. "We should be looking for moves in the next few weeks, and fairly substantial moves as well," Mr Cliffe said.

The move put the punt in the unusual position of being knocked off the top of the EMS grid. It is now the second-strongest, with the drachma top.

Sterling lost ground yesterday, as profit-taking ahead of today's UK Budget saw the pound slide back against the D-Mark and the US dollar.

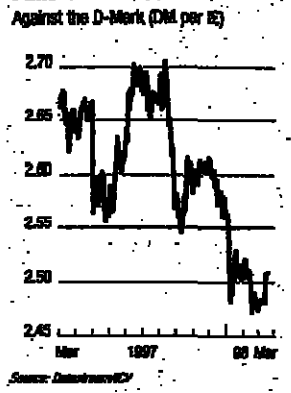
■ The weekend's moves by Greece is likely to lead it into a policy dilemma of its own making, according to Avinash Persaud, chief currency analyst at JP Morgan.

Lucas Papademos, the Greek central bank governor, said yesterday he would not allow the drachma to diverge "substantially" from its central ERM rate. Yet, as Mr Persaud points out, Greece needs a stable drachma and low inflation to be allowed to enter Emu.

"One of the policy objectives will have to break – and the policy objective likely to break, in my view, is exchange stability," Mr Persaud said.

Punt

Against the D-Mark (DM per £)



Source: Datastream/ICV

Based on the central rate being Greece's 2001 or 2002 entry rate, Mr Persaud expects the drachma's spot rate to appreciate by around 10 per cent against the Ecu.

■ The effect on the UK of the weekend's ERM machinations are more complex. "From the UK's perspective, the Greek move is more interesting. It reinforces the view that to join the single currency, you have to be member of the ERM," said Mr Cliffe.

But the UK government does not want to be haunted by memories of Black Wednesday, September 1992. Its position is that formally joining an ERM mark two is not required. All sterling needs to do is exhibit exchange rate stability against the euro for a period prior to entry.

Nick Parson, European markets analyst at Paribas, said that requirement depends on an interpretation of the Maastricht Treaty, which says countries should *observe* the normal fluctuation bands for two years prior to entry.

"It depends if you can observe something without being in it," Mr Parsons said.

Mr Persaud says the Labour administration has got a lot less to be afraid of, compared with 1992. In the latest version of the mechanism, currencies have the ability to rise or fall by 15 per cent against their central rates, enough to encompass most fluctuations. A sterling central rate of DM2.60 would have a ceiling of DM2.99, and floor of DM2.21.

In any case, even exhibiting stability will require policy changes: specifically, a shift from inflation rate targetting to exchange rate targetting for the Bank's Monetary Policy Committee.

That could happen relatively swiftly. "If we are genuinely aiming for Emu entry early in the next parliament, that means ERM membership perhaps as early as 2000," Mr Cliffe said.

■ POUND IN NEW YORK

Mar 16	---Latest---	--- Prev. close ---
£ spot	1.6685	1.6710
1 mth	1.6658	1.6685
3 mth	1.6610	1.6635
1 yr	1.6413	1.6440

■ OTHER CURRENCIES

Mar 16	£	$
Czech Rp	56.4819 - 56.5473	33.8080 - 33.8440
Hungary	349.754 - 350.008	210.050 - 210.100
Iran	4997.70 - 4995.30	3000.00 - 3000.00
Kuwait	0.5082 - 0.5088	0.3052 - 0.3053
Peru	4.6573 - 4.6662	2.7970 - 2.8010
Poland	5.7363 - 5.7440	3.4450 - 3.4480
Russia	10.1017 - 10.1082	6.0667 - 6.0677
U.A.E.	6.1154 - 6.1198	3.6727 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Mar 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.80	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	5.50	5.91
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
ECU Linked Ds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

[illegible footnote]

EURO CURRENCY INTEREST RATES

Mar 16	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	1¼ - ¾	1⅛ - ⅞	1⅝ - 1½	1⅝ - 1½	1¾ - 1⅝	1⅞ - 1¾
Canadian Dollar	5 - 4¾	4⅞ - 4⅝	5⅛ - 4⅞	4⅞ - 4⅝	5⅛ - 4⅞	5¼ - 5⅛
US Dollar	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½
Italian Lira	6 - 5¾	5¾ - 5¼	5⅝ - 5¼	5¼ - 5⅛	5¼ - 5⅛	4⅞ - 4¾
Japanese Yen	½ - ⅜	⅝ - ½	⅝ - ½	⅝ - ½	⅝ - ½	⅝ - ½
Asian $Sing	¾ - ½	2¼ - 1¾	6¼ - 4¾	6¼ - 5½	5¾ - 4¾	7 - 5¾

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.455	96.455	–0.10	96.455	96.450	2,072	47,842
Jun	96.390	96.375	–0.05	96.390	96.375	17,125	86,127
Sep	96.260	96.255	+0.10	96.260	96.245	3,978	31,253

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.495	96.495	-	96.500	96.495	9487	284655
Jun	96.390	96.390	+0.005	96.390	96.375	65465	406269
Sep	96.280	96.280	+0.005	96.280	96.265	29530	359564
Dec	96.080	96.075	+0.005	96.080	96.060	19760	361022

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	96.51	-	-	-	0	2339
Apr	-	96.51	-	-	-	0	150

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.37	94.34	-	94.37	94.33	4691	82133
Jun	95.32	95.27	-0.04	95.32	95.25	31849	253022
Sep	95.82	95.82	-0.02	95.83	95.81	10980	209019
Dec	95.95	95.96	-	95.96	95.93	7832	158038

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.90	98.92	-	98.93	98.90	3169	55768
Jun	98.73	98.62	-0.09	98.73	98.61	15510	58681
Sep	98.56	98.47	-0.09	98.56	98.46	6213	25305
Dec	98.37	98.29	-0.09	98.37	98.29	2365	18292

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.30	99.29	-0.01	99.30	99.30	275	n/a
Sep	-	99.30	-	-	-	0	n/a
Dec	99.27	99.26	-	99.27	99.27	304	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.77	95.78	+0.02	95.79	95.76	675	7801
Jun	95.85	95.85	+0.01	95.85	95.83	818	8868
Sep	95.84	95.86	-	95.87	95.84	433	11826
Dec	96.00	96.01	-	96.03	96.00	423	4992

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9425	0.09	1.05	1.60	0	0.03	0.03
9450	0	0.81	1.36	0.16	0.04	0.04
9475	0	0.59	1.12	0.41	0.07	0.05

Est. vol. total, Calls 4609 Puts 1435. Previous day's open int., Calls 361471 Puts 304844

POUND SPOT FORWARD AGAINST THE POUND

Mar 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.3336	–0.0177	249 - 423	21.4135	21.2890	21.2561	4.4	21.1249	3.9	20.5959	3.5	102.3
Belgium	(BFr)	62.5562	–0.0542	245 - 879	62.7790	62.5020	62.3312	4.3	61.956	3.8	60.3814	3.5	101.6
Denmark	(DKr)	11.5614	–0.0062	570 - 658	11.6024	11.5504	11.5229	4.0	11.457	3.6	11.1937	3.2	103.8
Finland	(FM)	9.2036	–0.0076	997 - 074	9.2350	9.1850	9.17	4.4	9.1104	4.1	8.8726	3.6	80.1
France	(FFr)	10.1666	+0.0007	624 - 707	10.2066	10.1584	10.1301	4.3	10.0673	3.9	9.8103	3.5	104.9
Germany	(DM)	3.0325	–0.0022	313 - 336	3.0443	3.0293	3.0217	4.3	3.0027	3.9	2.9258	3.5	102.7
Greece	(Dr)	530.695	+38.95	484 - 906	548.982	528.709	533.182	–5.6	536.629	–4.5	545.857	–2.9	58.6
Ireland	(I£)	1.2093	–0.0011	081 - 104	1.2134	1.2071	1.2077	1.6	1.2036	1.9	1.1763	2.7	82.5
Italy	(L)	2988.08	–1.82	464 - 751	2998.80	2984.15	2981.51	1.8	2972.64	1.8	2908.93	2.8	75.3
Luxembourg	*(LFr)*	*62.5562*	*–0.0542*	*345 - 879*	*62.7790*	*62.5020*	*62.3312*	*4.3*	*61.956*	*3.8*	*60.3814*	*3.5*	*101.6*
Netherlands	(Fl)	3.4181	–0.002	168 - 194	3.4308	3.4156	3.4055	4.4	3.3838	4.0	3.2969	3.5	100.8
Norway	(NKr)	12.6395	+0.02	348 - 442	12.6862	12.6063	12.5993	3.8	12.5303	3.5	12.2784	2.9	95.9
Portugal	(Es)	310.449	+0.037	291 - 607	311.410	310.234	309.676	3.0	308.163	2.9	300.588	3.2	91.1
Spain	(Pta)	257.228	–0.772	141 - 315	258.130	257.040	256.602	2.9	255.307	3.0	249.177	3.1	76.3
Sweden	(SKr)	13.2219	+0.0157	104 - 334	13.2822	13.2100	13.1863	3.2	13.1285	2.9	12.8921	2.5	85.4
Switzerland	(SFr)	2.4658	–0.0003	643 - 672	2.4790	2.4619	2.4516	6.9	2.4267	6.3	2.3251	5.7	107.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	106.8
Ecu	–	1.5287	-	278 - 295	1.5342	1.5275	1.5242	3.5	1.5162	3.3	1.4811	3.1	-
SDR†	–	1.23852	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6652	–0.0045	648 - 656	1.6722	1.6636	-	-	-	-	-	-	-
Brazil	(R$)	1.8871	–0.0058	866 - 876	1.8955	1.8856	-	-	-	-	-	-	-
Canada	(C$)	2.3541	–0.0012	530 - 552	2.3630	2.3525	2.3484	2.9	2.3385	2.7	2.3004	2.3	83.6
Mexico	(New Peso)	14.3400	+0.0436	282 - 517	14.3761	14.3152	14.5442	–17.1	14.9069	–15.8	16.3818	–14.3	-
USA	($)	1.6655	–0.005	651 - 659	1.6730	1.6641	1.6627	2.0	1.658	1.8	1.6383	1.6	109.0
Pacific/Middle East/Africa													
Australia	(A$)	2.4894	+0.0129	871 - 916	2.4959	2.4701	2.4837	2.7	2.4735	2.5	2.4294	2.4	87.4
Hong Kong	(HK$)	12.8977	–0.0395	937 - 016	12.9565	12.8878	12.8803	1.6	12.8792	0.6	13.1094	–1.6	-
India	(Rs)	65.8289	–0.155	715 - 863	66.0670	65.7670	-	-	-	-	-	-	-
Israel	(Shk)	5.9600	–0.0224	536 - 664	5.9776	5.9522	-	-	-	-	-	-	-
Japan	(Y)	215.940	+1.815	814 - 067	216.790	213.390	214.505	7.4	212.245	6.8	201.86	6.5	119.8
Malaysia	(M$)	6.3024	+0.0831	941 - 106	6.3920	6.1899	6.3145	–2.3	6.3527	–3.2	6.5437	–3.8	-
New Zealand	(NZ$)	2.8634	+0.0007	610 - 658	2.8743	2.8520	2.8661	–1.1	2.8714	–1.1	2.8875	–0.8	101.9
Philippines	(Peso)	65.7873	–0.3646	384 - 362	66.1587	65.4253	66.3037	–9.4	67.4938	–10.4	72.9706	–10.9	-
Saudi Arabia	(SR)	6.2471	–0.0187	451 - 490	6.2748	6.2422	6.24	1.4	6.2276	1.2	6.1793	1.1	-
Singapore	(S$)	2.6815	+0.0145	791 - 838	2.7015	2.6736	2.6767	2.2	2.6723	1.4	2.655	1.0	-
South Africa	(R)	8.2767	–0.024	722 - 812	8.3087	8.2721	8.323	–6.7	8.4023	–6.1	8.7537	–5.8	-
South Korea	(Won)	2434.13	–109.2	605 - 221	2537.94	2424.65	-	-	-	-	-	-	-
Taiwan	(T$)	54.0313	–0.1155	125 - 501	54.2071	54.0118	54.005	0.6	53.9944	0.3	54.0844	–0.1	-
Thailand	(Bt)	67.0364	–0.3684	370 - 358	67.7400	66.7130	67.4658	–7.7	68.2257	–7.1	72.4972	–8.1	-

† Rates for Mar 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.8092	+0.0278	070 - 113	12.8240	12.7514	12.7838	2.4	12.7415	2.1	12.5712	1.9	102.0
Belgium	(BFr)	37.5600	+0.08	500 - 700	37.6120	37.4120	37.4865	2.3	37.3885	2.0	36.855	1.9	101.6
Denmark	(DKr)	6.9417	+0.0171	407 - 427	6.9493	6.9113	6.9299	2.0	6.9102	1.8	6.8323	1.6	103.2
Finland	(FM)	5.5260	+0.012	250 - 270	5.5333	5.4974	5.5149	2.4	5.4948	2.3	5.4155	2.0	79.6
France	(FFr)	6.1042	+0.0187	032 - 052	6.1122	6.0922	6.0922	2.3	6.072	2.1	5.9879	1.9	104.3
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]											
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saudi Arabia	(SR)	3.7509	+0.0001	506 - 51[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	(S$)	1.6100	+0.0135	090 - 11[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	(R)	4.9695	+0.0005	680 - 71[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	(Won)	1461.50	–61	700 - 80[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	(T$)	32.4415	+0.028	380 - 45[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	(Bt)	40.2500	–0.1	000 - 00[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† SDR rate per $ for Mar 13. Bid/offer spreads in the Dollar Spot table s[illegible] Mar 13: Base average 1990=100. Bid, offer, mid spot rates and forward [illegible] services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the Internet [illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.48	16.25	4.848	1.933	4773	5.464	20.21	496.3	411.2	21.14	3.942	1.599	3.763	2.662	345.2	2.443
Denmark	(DKr)	54.11	10	8.794	2.623	1.046	2583	2.956	10.93	268.5	222.5	11.44	2.133	0.865	2.036	1.441	186.8	1.322
France	(FFr)	61.53	11.37	10	2.983	1.189	2937	3.362	12.43	305.4	253.0	13.01	2.425	0.984	2.316	1.638	212.4	1.504
Germany	(DM)	20.63	3.812	3.352	1	0.399	984.7	1.127	4.168	102.4	84.82	4.360	0.813	0.330	0.776	0.549	71.21	0.504
Ireland	(I£)	51.73	9.561	8.407	2.508	1	2469	2.827	10.45	256.7	212.7	10.93	2.039	0.827	1.947	1.377	178.6	1.264
Italy	(L)	2.095	0.387	0.340	0.102	0.041	100	0.114	0.423	10.40	8.614	0.443	0.083	0.033	0.079	0.056	7.232	0.051
Netherlands	(Fl)	18.30	3.382	2.974	0.887	0.354	873.6	1	3.698	90.82	75.25	3.868	0.721	0.293	0.689	0.487	63.18	0.447
Norway	(NKr)	49.49	9.147	8.043	2.399	0.957	2362	2.704	10	245.6	203.5	10.46	1.951	0.791	1.863	1.318	170.8	1.209
Portugal	(Es)	20.15	3.724	3.275	0.977	0.390	961.9	1.101	4.071	100	82.86	4.259	0.794	0.322	0.758	0.536	69.56	0.492
Spain	(Pta)	24.32	4.495	3.952	1.179	0.470	1161	1.329	4.914	120.7	100	5.140	0.959	0.389	0.915	0.647	83.95	0.594
Sweden	(SKr)	47.31	8.744	7.689	2.294	0.915	2258	2.585	9.560	234.8	194.5	10	1.865	0.756	1.781	1.260	163.3	1.156
Switzerland	(SFr)	25.37	4.689	4.123	1.230	0.490	1211	1.386	5.126	125.9	104.3	5.362	1	0.406	0.955	0.675	87.58	0.620
UK	(£)	62.56	11.56	10.17	3.033	1.209	2986	3.418	12.64	310.4	257.2	13.22	2.466	1	2.354	1.666	215.9	1.529
Canada	(C$)	26.57	4.911	4.319	1.288	0.514	1268	1.452	5.369	131.9	109.3	5.616	1.047	0.425	1	0.707	91.73	0.649
USA	($)	37.56	6.942	6.104	1.821	0.726	1793	2.052	7.589	186.4	154.4	7.939	1.481	0.600	1.414	1	129.7	0.918
Japan	(Y)	28.97	5.354	4.708	1.404	0.560	1383	1.583	5.853	143.8	119.1	6.123	1.142	0.463	1.090	0.771	100	0.708
Ecu	–	40.93	7.564	6.651	1.984	0.791	1954	2.236	8.269	203.1	168.3	8.650	1.613	0.654	1.540	1.090	141.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5496	0.5492	–0.0010	0.5509	0.5486	8,776	43,423
Jun	0.5537	0.5521	–0.0010	0.5546	0.5515	52,342	71,977
Sep	0.5575	0.5550	–0.0008	0.5575	0.5550	176	1,629

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7830	0.7721	–0.0079	0.7830	0.7706	7,313	51,140
Jun	0.7918	0.7816	–0.0083	0.7936	0.7803	25,954	65,466
Sep	-	0.7930	–0.0069	-	0.7930	52	614

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6775	0.6765	–0.0007	0.6781	0.6755	3,684	27,957
Jun	0.6857	0.6843	–0.0007	0.6866	0.6827	32,699	53,377
Sep	0.6910	0.6917	–0.0007	0.6917	0.6910	13	1,220

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6684	1.6660	–0.0028	1.6690	1.6660	2,835	15,889
Jun	1.6630	1.6586	–0.0030	1.6656	1.6586	24,572	29,934
Sep	-	1.6530	–0.0014	-	1.6530	92	560

UK INTEREST RATES

LONDON MONEY RATES

Mar 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 6	7⅛ - 7¼	7½ - 7⅜	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Sterling CDs	-	-	7⅜ - 7¼	7⅜ - 7⅜	7⅜ - 7⅜	7⅜ - 7⅜
Treasury Bills	-	-	7¼ - 7⅛	7⅛ - 7⅛	-	-
Bank Bills	-	-	7⅜ - 7⅛	7⅜ - 7¼	7⅜ - 7⅜	-
Local authority deps.	7½ - 7	7½ - 7	7⅝ - 7⅜	7⅜ - 7⅜	7⅜ - 7⅜	7⅜ - 7⅜
Discount Market deps	7½ - 7	7⅜ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Mar 13, 7.0383pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 27, 1998. Agreed rate for period Mar 25, 1998 to Apr 25, 1998, Scheme III 8.77pc. Reference rate for period Jan 31, 1998 to Feb 27, 1998, Schemes IV & V 7.532pc. Finance House Base Rate 8pc from Mar 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.44	92.45	-	92.45	92.44	7732	101459
Jun	92.50	92.51	+0.02	92.51	92.48	17259	159780
Sep	92.62	92.65	+0.03	92.66	92.61	16796	111961
Dec	92.80	92.84	+0.04	92.84	92.78	13454	118354
Mar	93.02	93.05	+0.04	93.05	92.99	7120	76296

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9225	0.20	0.29	0.45	0	0.03	0.05
9250	0	0.11	0.26	0.05	0.10	0.11
9275	0	0.03	0.12	0.30	0.27	0.22

Est. vol. total, Calls 4578, Puts 4253. Previous day's open int., Calls 289885 Puts 290037

EMS EUROPEAN CURRENCY UNIT RATES

Mar 16	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	348.105	+34.241	–2.49	2.73	17
Ireland	0.796244	0.788999	–0.005183	–0.91	1.09	6
Italy	1957.61	1949.70	–0.4	–0.40	0.58	3
Spain	168.220	167.954	–0.03	–0.16	0.33	1
Portugal	202.692	202.719	–0.013	0.01	0.16	–0
Finland	6.01125	6.01211	–0.00164	0.01	0.16	–0
Denmark	7.54257	7.54816	–0.00454	0.07	0.10	–1
France	6.63186	6.63957	–0.00386	0.12	0.06	–1
Austria	13.9119	13.9299	–0.0107	0.13	0.05	–1
Germany	1.97738	1.98012	–0.00133	0.14	0.04	–1
Belgium	40.7844	40.8471	–0.0283	0.15	0.02	–1
Netherlands	2.22799	2.23189	–0.00149	0.18	0.00	–1
NON ERM MEMBERS						
UK	0.653644	0.651650	+0.000512	–0.31	0.48	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.660	0.87	1.79	2.45	-	1.06	1.99
1.670	-	1.26	1.96	0.01	1.54	2.51
1.680	-	0.85	1.54	1.00	2.14	3.05

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
0.545	0.48	0.88	1.23	-	0.28	0.51
0.550	0.03	0.57	0.94	0.01	0.46	0.72
0.555	-	0.35	0.69	0.41	0.73	0.98

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.32	94.32	-	94.32	94.32	47,708	342,815
Jun	94.38	94.39	-	94.40	94.38	78,104	439,164
Sep	94.37	94.39	+0.02	94.41	94.37	80,693	362,646

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.04	95.04	–0.02	95.04	95.04	1,576	4,345
Jun	95.16	95.18	+0.01	95.18	95.16	412	4,186
Sep	-	95.19	-	-	-	9	436

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	CALLS Jun	PUTS Mar	PUTS Apr	PUTS May	PUTS Jun
9625	0.245	0.145	0.155	0.170	0	0.005	0.015	0.030
9650	0	0.010	0.020	0.020	0.005	0.120	0.130	0.130
9675	0	0	0	0	0.255	0.360	0.360	0.360
9700	0	0	0	0	0.505	0.610	0.610	0.610

Est. vol. total, Calls 6550 Puts 12845. Previous day's open int., Calls 399283 Puts 405971

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9900	0	0.03	0.03	0.08	0.41	0.56
9925	0	0.01	0.01	0.33	0.64	0.79

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 10830 Puts 6685

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association

* In administration

Copper group to lift output in Indonesia

By Kenneth Gooding, Mining Correspondent

Freeport-McMoRan, the US group, is responding to present low copper prices and the threat of global oversupply of the metal by increasing output by 40 per cent and lowering the cost of production by 20 per cent at its big Grasberg copper-gold mine in Indonesia.

Freeport has dubbed this the "Hunker Down & Go" campaign. Nick Moore, analyst at Flemings Global Mining Group, said the move was so aggressive that a better name would be "Bare Knuckle, Fist Fight".

Mr Moore warned that other copper producers were likely to follow Freeport's lead by boosting output to lower costs because this was a typical reaction by the industry in a hostile price environment. He added: "This is a recipe for disaster with twice the ingredients."

Freeport said it expected to sell 771,115 tonnes of copper from Grasberg this year, up from 535,244 tonnes in 1997. Unit site production and delivery costs are forecast to fall below 40 cents a pound ($882 a tonne) against 51 cents ($1,124).

Jim-Bob Moffett, chairman, said that since the discovery of Grasberg in 1988 the company had been continually expanding the project. Now it was in a position to focus on Grasberg's operating performance "to achieve higher sales levels at the lowest possible costs". The group would also put constraints on capital, administrative and other spending.

Freeport's change of tack comes during a lull in the slide in the copper price seen so far this year. Nevertheless, analysts pointed out that the move was a reminder that more new copper production was on its way, notably the 400,000 tonnes a year Collahuasi mine in Chile, owned by Minorco and Falconbridge.

"More cuts at high-cost producers will be required if the current balance is to be maintained," said Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group.

So far, mine closures in the US accounting for a total of 250,000 tonnes a year of production have been announced by BHP Copper and Cyprus Amax.

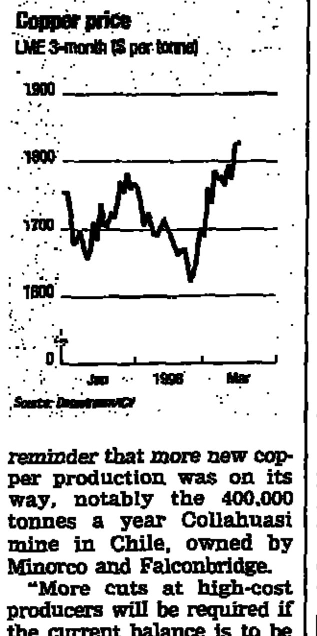
Mr Lennon suggested that reductions in scrap supplies and buying by Chinese traders also helped the recent recovery in copper's price.

"These factors are certainly sufficient to justify the pick up in prices to the $1,800-$1,850 a tonne range, but we are very cautious about the upside from here," he added.

A further price rise would bring scrap back into the market, while buying by Chinese traders was notoriously price-sensitive.

Copper for delivery in three months on the London Metal Exchange closed last night at $1,827, up $8 a tonne.

Copper price
LME 3-month ($ per tonne)



Source: Datastream/ICV

Kenyan nut producers optimistic

By Gary Mead

Kenyan macadamia nut producers may be grateful this year for the harsh weather suffered by Hawaii in late 1997 and the early part of 1998.

Severe drought, attributed to the current El Niño weather system, is likely to reduce Hawaiian production of these highly priced nuts by as much as 50 per cent in 1998, from the 26,000 tonnes estimated to have been harvested in 1997.

Hawaii and Australia are the two biggest producers, each with about 35 per cent of the total, although less than 20 per cent of Hawaiian output is exported.

Kenya takes third place, and is by far the biggest macadamia nut producer in Africa. As a result of El Niño, Australia is likely to become the world's biggest producer this year, with output of about 27,500 tonnes forecast.

Having escaped the worst of El Niño, the Kenya Nut Company – a joint venture between Japanese and Kenyan entrepreneurs – is now set to take advantage of a possible shortfall in supply of this valuable nut.

The KNC is supplied by smallholders, who collectively have 2m macadamia trees under cultivation.

A tropical evergreen, a mature macadamia tree will yield between 25kg and 30kg (unshelled) of nuts, though the KNC is exploring hybrid cultivation to improve this to 40-50 kg.

Under its Nutfields brand name the KNC has made strong headway in Europe. While macadamias are popular in the US and Japan – thanks to the 2m Japanese tourists who visit Hawaii each year – they are not as well known in Europe.

The KNC now supplies airline Lufthansa with macadamia snacks and is hoping a new brand name, Out of Africa, will help carry its products into the European supermarket trade.

"If you look at other nuts you can see that macadamias have a lot of potential. World almond production is about 400,000 tonnes, pistachios about 300,000 tonnes; macadamia production is less than 100,000 tonnes. It is time the macadamia gained its citizenship in the nut world," says Yoshiyuki Sato, managing director of the KNC.

But high prices are an obstacle to rapid expansion of the macadamia market.

Prices for top quality macadamias last year reached $9,000 a tonne, substantially higher than almonds (about $4,000 a tonne), or cashews (about $5,500 a tonne).

They have since retreated to about $8,000 a tonne – largely as a result of decreased demand in east Asia, particularly Japan, in the context of the economic slowdown – but this is still a high price to pay for exclusivity.

Mr Sato, however, is convinced that macadamias have a growing future outside the snack and confectionery fields, in cosmetics.

"This is the king of nuts. It has the highest percentage of natural oils of all nuts. Besides being cholesterol-free, scientists have discovered that the chemical composition of macadamia oil is almost identical to the natural oils of a young girl's skin.

"This is why Shiseido [one of Japan's leading cosmetic companies] is now using it as a base oil for facial cosmetics."

Kenyan brands of macadamia nuts are making strong headway in Europe Picture: Gary Mead

Asia's milkman left out in the cold

New Zealand's dairy board is having to search for new markets in the face of falling demand, writes **Terry Hall**

Falling demand in Indonesia, South Korea, the Philippines and Malaysia is becoming a growing headache for the New Zealand Dairy Board, which likes to call itself Asia's milkman.

New Zealand is a leading supplier of dairy products to Asia – notably whole milk powder – and the region's financial problems are likely to cost it at least NZ$70m (US$41m) this season. This compares with the dairy board's total worldwide sales of more than NZ$6bn, or 30 per cent of the world trade.

The board believes it will be forced to divert around 47,500 tonnes of dairy products – nearly 10 per cent of its annual Asian sales of 500,000 tonnes – to other markets before the current season ends in May.

Neville Martin, of the New Zealand Dairy Board, says that despite the difficulties, New Zealand is better placed in Asia than many of its competitors.

Its brands, such as Anchor, are market leaders in most countries and whole milk powder, the dairy board's biggest selling product in the Asian region, is considered a staple food for infant nutrition.

"The situation there is difficult, but it's not calamitous for us," Mr Martin says. "We continue to regard Asia as one of our most important markets."

However, falling demand in Asia has sparked sharp falls in international prices, especially for milk powder, which has fallen by approximately US$100 a tonne so far this year.

The fall in demand is forcing the board to compete for markets elsewhere against Australia and Europe, whose goods are also being displaced from Asia.

This, together with the problems the board is having in capitalising on the recent 15 per cent fall in the value of the New Zealand dollar because of previous forward currency arrangements, are behind its surprise recent decision to advise farmers that they could face a modest fall in incomes this season.

The board is now predicting a pay-out to farmers of between NZ$2.90 and NZ$3 a kilogram of milk solids for the current season. This would be down from NZ$3.18 last season and NZ$3.60 in 1996.

A fall in the international butter price this year of around US$300 a tonne is compounding the problems, although the cheese market is proving more robust, with prices slipping by around US$75 a tonne to US$2,200 a tonne mark. The casein and protein markets are relatively stable.

Mr Martin says that this unfortunately suggests New Zealand's unsubsidised farmers will face a tougher than expected year, although they should benefit more fully from the dollar devaluation next season.

Drought conditions in many parts of the country are forcing farmers, especially those on the eastern parts of both the North and South Islands, to dry off their cows unusually early.

However, El Niño, the abnormal warming of the Pacific Ocean that disrupts global weather systems, has brought heavier rain than normal to western regions, such as Taranaki, leading to strong growth in the late summer.

As a result of the freak weather, the dairy board is still forecasting that total production will rise by approximately 4 per cent to a new record of 914m kg of milk solids this season – up from 880m kg last year.

Oil tests lows on IPE and Nymex

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Gary Mead

Oil prices were sent reeling again yesterday as bearish sentiment caused futures prices in New York and London to test fresh lows.

In late trading on London's International Petroleum Exchange, Brent Blend for April delivery – which expired at the close of trading – was $12.21 a barrel, down 55 cents on Friday's close. May Brent was down 47 cents at $12.58 a barrel.

The front month contract on New York's Mercantile Exchange fell below $13.75 for the first time since 1988.

The Centre for Global Energy Studies in London yesterday warned that prices could tumble to single-digit figures in the summer if the Organisation of Petroleum Exporting Countries failed to act. It said even a 1m barrel a day cut by Opec would not be enough to arrest the present price decline.

On the London Metal Exchange's nickel market three-month nickel closed up $70, at $5,525 a tonne. Dealers said if nickel went above $5,550 a tonne it would trigger more buying by organisations that relied on charts and other technical signals.

Worries that President Yeltsin's illness might cause more delays to Russian palladium exports helped to send the price to an 18-year high of $282 a troy ounce. The metal closed in London at $277.50, up $4.50.

A busier day than of late was seen by cocoa dealers on the London International Financial Futures Exchange, with 14,366 lots traded. However, the relatively higher volume did not help a market in which the fundamentals are strongly bearish, and the benchmark May contract closed £9 lower at £1,072 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1445.5-6.5	1468-9
Previous	1444-45	1463-63
High/low		1471/1455
AM Official	1438.5-39	1459.5-60
Kerb close		1468-8.5
Open int.	258,385	
Total daily turnover	139,520	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1260-65	1290-92
Previous	1263-68	1290-95
High/low		1315/1287
AM Official	1257-58	1288-90
Kerb close		1305-10
Open int.	5,053	
Total daily turnover	2,368	

■ LEAD ($ per tonne)

Close	557-8	555.5-6.0
Previous	558-9	554-5
High/low		559/551
AM Official	555-6	553-4
Kerb close		558-9
Open int.	34,722	
Total daily turnover	16,908	

■ NICKEL ($ per tonne)

Close	5430-40	5525-30
Previous	5380-90	5470-75
High/low		5560/5440
AM Official	5360-65	5455-60
Kerb close		5520-25
Open int.	54,204	
Total daily turnover	27,980	

■ TIN ($ per tonne)

Close	5510-20	5485-70
Previous	5445-55	5410-20
High/low		5500/5430
AM Official	5475-80	5440-50
Kerb close		5485-90
Open int.	15,452	
Total daily turnover	6,168	

■ ZINC, special high grade ($ per tonne)

Close	1042-3	1068-9
Previous	1029.5-30.5	1054-55
High/low		1095/1046
AM Official	1031-32	1057-58
Kerb close		1085-6
Open int.	75,242	
Total daily turnover	34,468	

■ COPPER, grade A ($ per tonne)

Close	1802-3	1828-30
Previous	1796-97	1817-18
High/low		1831/1808
AM Official	1786.5-87	1812-13
Kerb close		1827-8
Open int.	167,878	
Total daily turnover	110,381	

■ LME AM Official £/$ rate: 1.6691
LME Closing £/$ rate: 1.6655

Spot: 1.6685 3 mths: 1.6612 6 mths: 1.6538 9 mths: 1.6471

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	82.25	+0.15	82.65	81.60	539	1,757
Apr	82.55	+0.30	82.70	81.90	417	2,702
May	83.10	+0.30	83.80	82.30	5,850	27,472
Jun	83.30	+0.25	83.55	82.70	62	2,194
Jul	83.50	+0.25	83.90	82.85	845	9,463
Aug	83.60	+0.20	83.85	83.85	27	1,549
Total					7,870	67,651

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	294.00-294.50		
Opening	294.20-294.60		
Morning fix	294.15	176.085	434.901
Afternoon fix	294.20	176.516	435.122
Day's High	294.45-294.85		
Day's Low	293.80-294.20		
Previous close	294.80-295.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.74	6 months	3.73
2 months	3.73	12 months	3.68
3 months	3.73		

Silver Fix	p/troy oz.	US cts equiv.
Spot	368.25	611.75
3 months	368.45	609.40
6 months	367.60	608.60
1 year	368.55	605.55
Gold Coins	$ price	£ equiv.
Krugerrand	295-297	177-179
Maple Leaf	-	-
New Sovereign	69-73	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	294.5	-0.8	-	-	-	-
Apr	295.1	-0.8	296.4	294.4	15,400	91,832
Jun	296.9	-0.8	297.3	296.2	1,206	21,395
Aug	298.9	-0.8	298.9	298.4	105	6,952
Oct	300.9	-0.8	301.0	301.0	185	3,914
Dec	302.9	-0.8	302.9	302.2	36	15,078
Total					17,175	190,531

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	402.5	+10.4	402.8	394.0	2,169	9,308
Jul	398.7	+9.9	398.9	390.5	413	2,364
Oct	396.5	+10.2	384.0	382.0	7	400
Jan	394.0	+10.2	385.0	385.0	42	89
Total					2,589	12,161

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	279.00	+5.00	279.90	275.00	147	536
Jun	270.00	-	270.00	264.00	773	4,563
Sep	263.00	-	263.00	260.00	29	491
Total					949	5,590

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Mar	605.6	-4.0	607.5	602.0	260	635
May	609.5	-4.0	615.5	605.5	12,201	54,460
Jul	610.2	-3.3	613.5	606.0	310	15,864
Sep	610.5	-3.1	608.0	608.0	15	5,102
Dec	611.0	-3.1	614.5	607.0	40	10,520
Jan	610.9	-3.1	-	-	-	14
Total					12,866	96,019

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	13.42	-0.64	14.05	13.35	37,071	74,509
May	13.83	-0.60	14.42	13.78	25,152	93,612
Jun	14.24	-0.58	14.83	14.20	9,539	63,001
Jul	14.68	-0.56	15.09	14.60	2,943	38,352
Aug	15.04	-0.58	15.45	15.00	1,087	19,696
Sep	15.35	-0.52	15.75	15.35	491	21,268
Total					84,631	477,167

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	12.44	-0.32	12.68	12.39	6,927	26,844
May	12.57	-0.48	13.00	12.47	22,151	78,753
Jun	13.00	-0.52	13.42	12.91	4,947	30,608
Jul	13.62	-0.25	13.79	13.32	454	16,383
Aug	13.75	-0.46	14.09	13.66	1,403	11,464
Sep	14.09	-0.41	14.37	14.06	636	12,592
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	38.95	-1.30	40.25	38.80	11,227	44,015
May	39.65	-1.20	40.85	39.50	5,651	34,630
Jun	40.55	-1.15	41.95	40.50	1,339	19,066
Jul	41.65	-1.05	42.95	41.45	543	16,150
Aug	43.00	-0.80	44.05	43.00	356	10,533
Sep	44.35	-0.55	44.80	44.35	248	9,589
Total					23,070	178,495

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	120.25	-4.00	122.25	120.00	7,069	35,630
May	122.75	-4.00	124.75	122.75	2,598	17,734
Jun	126.25	-4.00	128.00	126.00	1,842	16,709
Jul	130.00	-3.00	130.50	130.00	532	9,642
Aug	133.50	-2.75	133.75	133.00	363	7,616
Sep	136.25	-3.00	137.00	136.50	253	8,101
Total					15,900	138,881

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Apr	8.960	-0.010	8.990	8.950	130	2,835
May	8.660	-0.030	-	-	-	1,975
Total					710	18,420

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	2.150	+0.013	2.170	2.105	15,116	36,285
May	2.180	+0.010	2.205	2.135	5,338	22,887
Jun	2.205	+0.005	2.225	2.160	2,654	14,507
Jul	2.240	+0.010	2.255	2.202	1,014	12,284
Aug	2.265	+0.005	2.270	2.230	1,042	12,668
Sep	2.265	+0.005	2.270	2.250	668	9,390
Total					28,870	199,481

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	45.75	-1.50	47.20	45.50	12,338	36,206
May	46.75	-1.49	48.20	46.65	8,020	30,872
Jun	47.80	-1.44	48.70	47.45	3,698	17,084
Jul	48.20	-1.49	49.40	48.15	1,343	13,054
Aug	48.50	-1.45	49.60	48.50	183	6,380
Sep	48.55	-1.50	49.70	48.55	306	6,745
Total					25,920	114,181

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.50	-0.25	-	-	-	45
May	76.50	-0.25	76.50	76.00	57	3,019
Jul	78.50	-0.25	78.50	78.00	86	1,392
Sep	76.60	-0.30	-	-	-	108
Nov	78.60	-0.30	78.50	78.25	35	2,452
Total					173	7,631

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Mar	330.75	-5	333.25	329.00	191	467
May	338.00	-4	342.50	337.00	8,019	42,798
Jul	347.00	-3.75	351.25	346.00	7,236	36,748
Sep	355.25	-3.25	358.50	354.50	561	5,445
Dec	367.00	-3.75	371.50	366.50	2,873	11,310
Mar	374.00	-3.5	381.00	378.50	175	690
Total					19,065	97,495

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Mar	265.50	-2.5	269.50	265.25	9,721	3,258
May	271.75	-3	275.50	271.50	43,010	129,679
Jul	278.00	-3.25	281.75	277.50	12,829	105,894
Sep	279.75	-3.25	283.25	279.50	1,804	21,855
Dec	281.25	-3.25	285.00	281.00	15,784	88,890
Mar	287.25	-3.75	291.00	286.75	665	5,469
Total					83,900	357,459

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Mar	74.00	-	-	-	-	-
May	75.50	-	75.50	75.30	10	249
Sep	73.75	-	-	-	-	12
Nov	75.75	-	-	-	-	433
Jan	77.75	-	-	-	-	72
Total					10	766

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Mar	654.00	+0.5	655.00	650.00	964	1,564
May	654.50	-1	657.50	650.00	36,919	68,789
Jul	656.50	-1.5	659.50	652.50	12,358	41,037
Aug	654.25	-2	657.00	651.50	1,126	7,406
Sep	641.00	-1	643.50	640.00	187	1,248
Nov	635.00	-	639.00	632.00	11,111	26,422
Total					83,122	148,241

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Mar	26.90	-0.28	27.15	26.75	516	1,361
May	27.10	-0.17	27.25	26.85	9,195	68,814
Jul	27.34	-0.01	27.67	26.96	4,704	44,991
Aug	27.15	-	27.15	26.75	343	6,192
Sep	26.80	+0.07	26.75	26.45	1,688	4,668
Oct	26.45	+0.1	26.30	26.05	245	3,579
Total					18,127	137,576

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Mar	170.4	-0.9	171.6	169.9	3,145	4,231
May	172.2	-0.4	173.6	171.3	14,106	57,708
Jul	174.3	-0.5	175.7	173.1	5,083	33,147
Aug	175.7	-0.4	176.8	175.3	885	11,754
Sep	176.8	-0.1	177.8	176.5	1,966	9,351
Oct	177.3	+0.3	178.0	177.0	290	3,226
Total					27,485	131,417

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Apr	59.5	+2.5	57.0	57.0	20	629
May	66.5	+2.5	64.0	64.0	5	234
Jun	74.0	-	-	-	-	-
Nov	58.0	-	-	-	-	-
Mar	68.0	-	-	-	-	-
Total					37	1,172

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Mar	1025	-9	-	-	-	392
Apr	1055	-20	1065	1040	56	719
Jul	985	-20	-	-	-	249
Oct	1105	-15	-	-	-	126
Jan	1155	-15	-	-	-	5
Total					71	1,528

	Close	Prev
BFI	1084	1081

PULP AND PAPER

■ PULPEX DMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	-	-	-	-	10	78
Total					10	78

FUTURES DATA
All futures data supplied by CMS.

TEA
The London Tea Auction is now fortnightly. The next report will appear on March 24.

SPICES from Man Producten
White pepper hardly changed. Supply remains tight but buyers appear adequately stocked to escape covering at the prevailing price of about $7,750 spot or nearby shipment. New crop Muntok White was occasionally traded at $1,500/MT discount. Black pepper is in short supply in all consumption markets. Supplies from new crops in India and Vietnam remain far below average, creating a firmer market. Black FAQ $5,250, Asta $5,500.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1058	-11	1062	1061	10	1,803
May	1072	-9	1083	1061	11,783	27,253
Jul	1086	-9	1097	1078	643	15,681
Sep	1100	-9	1111	1093	511	26,337
Dec	1120	-10	1130	1114	830	30,300
Mar	1143	-8	1152	1135	589	35,920
Total					14,366	159,136

■ COCOA CSCE (10 tonnes; $/tonnes)

Mar	1610	-26	-	-	1	3
May	1616	-26	1634	1608	6,438	26,974
Jul	1639	-24	1650	1633	1,275	13,518
Sep	1662	-24	1671	1658	46	7,265
Dec	1694	-21	1704	1693	256	13,368
Mar	1725	-20	1725	1725	5	9,895
Total					8,090	76,071

■ COCOA (ICCO) (SDR's/tonne)

Mar 13	Price	Prev. day
Daily	1292.92	1279.48

■ COFFEE LIFFE (5 tonnes; $/tonne)

Mar	1713	+52	1708	1665	85	450
May	1735	+60	1737	1680	3,520	21,386
Jul	1707	+56	1703	1661	449	10,497
Sep	1685	+55	1680	1635	101	2,966
Nov	1680	+55	1640	1620	53	1,095
Jan	1642	+55	1607	1607	21	79
Total					4,229	36,489

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Mar	153.40	+3.85	154.00	152.00	22	193
May	150.05	+3.55	151.50	147.50	5,311	15,290
Jul	145.05	+2.45	147.00	144.00	1,588	5,582
Sep	138.35	+1.95	138.50	137.75	843	4,224
Dec	132.75	+1.75	133.25	132.25	537	3,313
Mar	129.75	+1.75	130.00	128.75	265	844
Total					8,586	29,864

■ COFFEE (ICO) (US cents/pound)

Mar 13		Prev. day 1
Comp. daily	118.35	119.24
15 day average	123.34	124.27

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

May	266.8	+1.9	268.0	265.5	1,212	17,454
Aug	269.9	+1.8	270.2	268.5	661	9,733
Oct	273.1	+1.7	273.6	272.0	626	6,404
Dec	274.6	+1.2	275.5	275.5	142	790
Mar	278.3	+1.3	278.8	278.1	201	921
May	281.0	+1.9	279.9	279.8	60	389
Total					2,784	35,792

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	9.44	+0.04	9.53	9.43	13,380	84,843
Jul	9.41	+0.03	9.48	9.38	5,126	36,097
Oct	9.71	-	9.79	9.71	4,271	42,411
Mar	10.07	-0.02	10.15	10.07	1,130	16,035
May	10.15	-0.02	10.17	10.17	57	2,130
Jul	10.22	-0.02	10.24	10.24	20	3,304
Total					23,984	186,808

■ COTTON NYCE (50,000lbs; cents/lbs)

May	70.54	-0.39	70.70	70.21	22,767	31,539
Jul	71.70	-0.41	71.90	71.45	10,521	17,057
Oct	73.50	-0.37	73.55	73.30	181	2,774
Dec	74.54	-0.41	74.75	74.40	10,605	26,782
Mar	75.40	-0.25	75.67	75.25	237	1,962
Total					44,400	82,438

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	110.00	-0.05	110.30	108.30	6,386	21,898
Jul	113.00	+0.30	113.20	111.10	1,185	6,814
Sep	116.00	+0.75	116.00	114.60	500	3,316
Nov	117.90	+0.65	116.25	115.25	229	3,104
Jan	118.90	+0.65	116.55	116.55	30	1,302
Mar	120.90	+0.65	120.00	119.00	25	756
Total					8,336	37,928

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 16	Mar 13	month ago	year ago
1682.9	1682.7	1729.5	1997.1

■ CRB Futures (Base: 1967 = 100)

Mar 13	Mar 12	month ago	year ago
225.98	226.13	-	-

■ GSCI Spot (Base: 1970 = 100)

Mar 13	Mar 12	month ago	year ago
161.69	162.56	170.84	192.86

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,700	to	556,125
Aluminium alloy	+920	to	43,340
Copper	-1,725	to	356,425
Lead	+1,250	to	104,175
Nickel	-342	to	64,734
Zinc	-875	to	478,725
Tin	-155	to	8,895

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	64.950	-0.700	65.775	64.900	6,359	46,050
Jun	67.025	-0.450	67.700	67.000	4,496	32,601
Aug	68.300	-0.100	68.975	68.200	788	11,433
Oct	69.175	-0.400	69.950	69.125	570	8,195
Dec	70.325	-0.200	70.800	70.250	283	2,248
Feb	71.600	-0.350	72.050	71.600	17	534
Total					12,591	101,160

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	48.025	-0.875	48.450	47.800	3,256	15,422
Jun	55.950	-0.425	56.100	55.700	2,047	12,212
Jul	55.575	-0.375	55.825	55.400	525	4,433
Aug	53.500	-0.375	53.725	53.025	329	2,877
Oct	51.000	-0.275	51.100	50.750	159	2,849
Dec	50.750	-0.175	51.100	50.725	159	1,793
Total					6,496	39,666

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Mar	41.725	-0.425	41.725	40.650	96	260
May	42.000	-0.350	42.150	41.000	700	5,461
Jul	41.350	-0.025	41.450	40.325	132	2,100
Aug	40.025	-0.325	40.400	39.800	69	946
Sep	44.950	-	-	-	6	23
Total					998	8,820

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1425	58	92	21	33
1450	43	78	31	43
1475	31	64	44	54
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
1750	109	137	34	58
1800	79	109	54	79
1850	58	86	80	105
■ COFFEE LIFFE	Mar	May	Mar	May
1600	144	149	9	42
1650	104	115	19	58
1700	70	88	35	81
■ COCOA LIFFE	May	Jul	May	Jul
1050	39	63	17	27
1075	26	49	29	38
1100	17	39	45	53
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1350	26	63	-	62
1400	12	44	-	-
1450	-	27	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$10.23-0.28x	-0.845
Brent Blend (dated)	$11.74-1.77	-0.745
Brent Blend (May)	$12.52-2.54	-0.815
W.T.I.	$13.80-3.82x	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$142-145	-2
Gas Oil	$119-121	-4
Heavy Fuel Oil	$61-63	
Naphtha	$128-131	-2
Jet fuel	$128-130	-3.5
Diesel	$122-124	-4

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	8.85-9.00	-0.03

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

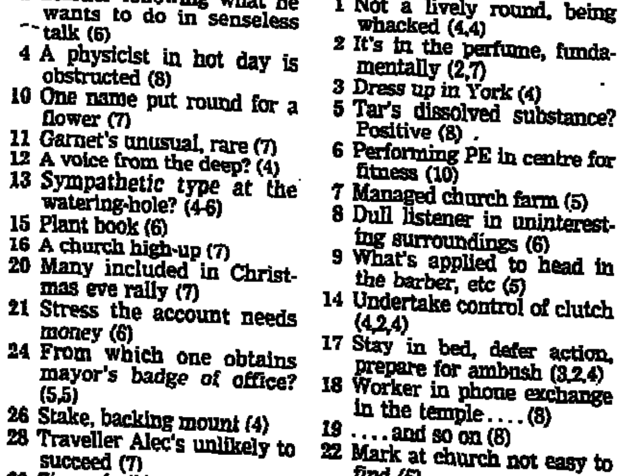
Gold (per troy oz)♣	$294.25	-0.80
Silver (per troy oz)♣	609.50c	-2.00
Platinum (per troy oz.)	$400.00	+8.00
Palladium (per troy oz.)	$280.00	+7.00
Copper	83.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.91r	
Tin (New York)	281.5	+3.00
Cattle (live weight)	94.72p	+12.01*
Sheep (live weight)	94.77p	+12.06*
Pigs (live weight)†	70.61p	-0.42*
Lon. day sugar (raw)	$231.30	+7.50
Lon. day sugar (wte)	$266.00	+8.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£108.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	47.75p	-0.50
Rubber (May)♥	47.75p	-0.50
Rubber (KL RSS No1)	284.50m	
Coconut Oil (Phil)§	585.0y	+2.5
Palm Oil (Malay.)§	660.0	
Copra (Phil)§	382.5y	
Soyabeans (US)	175.0	
Cotton Outlook'A' index	68.10	+0.40
Wooltops (64s Super)	376p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Feb/Mar. x Apr. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 606 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,633 Set by QUARK



ACROSS
1 Learner following what be wants to do in senseless talk (6)
4 A physicist in hot day is obstructed (8)
10 One name put round for a flower (7)
11 Garnet's unusual, rare (7)
12 A voice from the deep? (4)
13 Sympathetic type at the watering-hole? (4-6)
15 Plant book (6)
16 A church high-up (7)
20 Many included in Christmas eve rally (7)
21 Stress the account needs money (6)
24 From which one obtains mayor's badge of office? (5,5)
26 Stake, backing mount (4)
28 Traveller Alec's unlikely to succeed (7)
29 Pier rebuilding incorporating tax (confidential) (7)
30 Acting as editor: English correcting? (8)
31 Will's character in nightcap or tiara? (6)

DOWN
1 Not a lively round, being whacked (4,4)
2 It's in the perfume, fundamentally (2,7)
3 Dress up in York (4)
5 Tar's dissolved substance? Positive (8)
6 Performing PE in centre for fitness (10)
7 Managed church farm (5)
8 Dull listener in uninteresting surroundings (6)
9 What's applied to head in the barber, etc (5)
14 Undertake control of clutch (4,2,4)
17 Stay in bed, defer action, prepare for ambush (3,2,4)
18 Worker in phone exchange in the temple .... (8)
19 .... and so on (8)
22 Mark at church not easy to find (6)
23 Jet sent up in journeys (5)
25 Fruit very soft, seen in drink (5)
27 Oil's contaminated the grain store (4)

Solution to Saturday's prize puzzle on Saturday March 28.
Solution to yesterday's prize puzzle on Monday March 30.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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	Init Charge	Selling Price	Buying Price	+ or -	Yield Grs
BAII Asset Management Ltd					
10 Piccadilly, London W1V 0EE 0171 734 3700					
Marketnet NAV Feb 13 F.		$873.22		-5.91	-
Bank Von Ernst & Cie AG					
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313291111					
UK Equity		£20.77			-
UK Smaller Co's Equity		[illegible]		+0.02	-
N/th American Equity		[illegible]		+0.37	-
US Smaller Co's Equity		$27.82		+0.03	-
Pacific Basin Equity		$11.23		+0.22	-
Japanese Equity		¥470			-
European Equity		[illegible]		-3.00	-
Swiss Equity		[illegible]		+0.17	-
VB Sterling Fixed Int		[illegible]		-0.01	-
VB Sterling Fixed Int Div		[illegible]			-
European Fixed Int		[illegible]			-
European Fixed Int Div		[illegible]		-0.07	-
DM Bond Cap		[illegible]		+0.07	-
DM Short Term Cap H. 1½		[illegible]			-
Global Equity		$17.09			-
Global Bond		$13.93		+0.03	-
Global Bond Div		$9.46		+0.03	-
Global Managed		[illegible]		+0.17	-
Swiss Franc Short Term Cap.		[illegible]			-
Swiss Franc Bonds Cap.		[illegible]		+0.01	-
USD Short Term Cap H 1½		$10		[illegible]	-
DM Short Term Div H. 1½		[illegible]		[illegible]	-
DM Bond Div H. 5		[illegible]		[illegible]	-

For Bureau Indosuez see Credit Agricole Indosuez

[illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International (Isle of Man) Ltd

Victory Hse, Prospect Hill, Douglas, IoM 01624 [illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
Distribution Fund–Deferred	75.64			-
Distribution Fund–Quarterly	59.64			5.44
Distribution Fund–Half Yearly	59.58			5.54
European Equity	218.28	232.55		-
Far Eastern Equity	$1.4106	1.5167		-
North American Equity	$2.0624	2.2178		-
UK Equity	248.23	264.75		-
UK Gilt & Fixed Int	138.61	149.04		-
Dollar Deposit	$0.8078	0.8686		-
Sterling Deposit	116.59	125.04		-
International Managed	166.53	179.05		-

PanEuroLife societe anonyme

7, Rue de la Chapelle L–1325 Lux 00 352 456730

	Selling Price	Buying Price	+ or -	Yield Gross
French Balanced Mar 11	FFr10386.67		+28.35	-
German/Deutsche Mar 11	DM4264.57		+60.57	-
Global Equities Mar 11	$1714.10		+3.23	-
UK Secure Gth Mar 11	£949.16		+1.58	-
US Secure Growth Mar 11	$1579.72		-0.78	-
Int Real Estate Mar 11	Ecu1509.00		-0.80	-
Fund of Funds Mar 11	Ecu1701.58		+17.52	-
Dynasec DEM Guaranteed 3.5%	DM1075.39		+0.98	-
Dynasec LUF Guaranteed 4%	LFr1807.10		+0.87	-
Dynasec USD Guaranteed 2.5%	$1077.30		+0.71	-
Dynasec FRF Guaranteed 3.5%	FFr1876.00		+0.86	-
Dynasec BEF Guaranteed 2.5%	BFr1003.50			-
USD 2004	$575.00		+3.85	-
Nikkei 225 Index 1	Ecu1[illegible]		-90	-
SP Dividend & Perf 500 Index 1	Ecu10702		+113	-
Swiss Securities	SFr1218.20		+12.85	-

Premier Life

1 Rue Emile Bian, Luxembourg Tlx 2809 Tel 4050781

	Selling Price	Buying Price	+ or -	Yield Gross
Davenport Chelwick £ Fd	£1.330	1.430		-
Matheson £ Pens	£1.000	1.070		-
Matheson $ Pens	$1.049	1.100		-
Argent Blend	£15.590	16.880		-
Argent Equity Gth	£15.250	16.330		-
OFS James Capel Mgs Gr £	£2.04	2.85		-
OFS James Capel Mgs Gr $	$2.51	2.52		-
OFS Aggressive $	$1.55	1.66		-
OFS Mixed Growth $	$1.83	1.84		-
OFS Dir Balanced Port	$1.58	1.59		-
CH 10	SFr1.90	2.05		-
LX 10	$2.16	2.32	+0.04	-

Professional Investment Consultants

	Selling Price	Buying Price	+ or -	Yield Gross
Premier Lux $	$1.1	1.18		-
Premier Lux £	£0.8	0.89		-

Apax Bank & Trust Company

	Selling Price	Buying Price	+ or -	Yield Gross
GCM Intl Convertible (USD)	$1287.48			-
GCM Intl Fixed Income (USD)	$1149.54			-
GCM Intl Equity (USD)	$734.60			-
GCM Intl High Yield	$1076.49			-

Acavis Capital Advisers LLC

	Selling Price	Buying Price	+ or -	Yield Gross
Acavis Clipper Ltd	$148.56			-

Arc Investment Company Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Rainbow	£852.57			-
Rainbow	$4001.79			-

Ardent Investment Management Limited

	Selling Price	Buying Price	+ or -	Yield Gross
The Alpha Unit Trust	$58.71		-1.79	-
The Pegasus Fund Ltd	£12.18			-

Arisaig Partners (BVI) Ltd

Arisaig Asian Small Companies Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Mar 13	$8.41			-

Aristocrat Capital Management Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Aristocrat Endeavour Fd	£22.75			-

Armfield–Narrow Investment Mgmt Inc

	Selling Price	Buying Price	+ or -	Yield Gross
Royce Hedge Fd Ltd	$308.5080			-

Arnhold and S. Bleichroeder, Inc

	Selling Price	Buying Price	+ or -	Yield Gross
Aston Corporation–Class A	$12573.76			-
[illegible]	$881.74			-
DEF Associates N.V. – Class A	$10265.63			-
Eagle Select Fund Ltd	$1297.08			-
Eagle Strong Growth	$1164.89			-
First Eagle Fund N.V. – Class A	$136108.60			-
First Eagle Fund N.V. – Class D	$1385.78			-
Global Beverage–Class A	$144.70			-

Asia Pacific Securities Corp Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Indian Small Cos Fd Ltd Mar 6	56.44			-

Asian Convertibles & Income Fd (Cayman)

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Mar 5	$11.13			-

Atlantica Investment Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Atlantica Ultra Plus Jan 2	$107.81			-

Atlantic Investment Management, Inc

	Selling Price	Buying Price	+ or -	Yield Gross
AJR International Mar 11	$267.86			-
Cambrian Fund Mar 11	$184.11			-

Atlantic Fund Management (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Atlantic Jap Smlr Uncl Mar 6	$4.91			-
Atlantic Jap Smlr Cls Mar 9	$5.76			-

Global Asset Management - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
GAM Managed Portfolio				
Managed Portfolio	$1427.27			-
Swiss Registered Funds				
GAM (CH) Europe	SFr176.80		+1.45	-
GAM (CH) Mondial	SFr317.70		-0.55	-
GAM (CH) Pacific	SFr208.00		+2.65	-
SEC Registered Funds				
GAMerica Capital	$15.51		+0.07	-
GAM Asian Capital	$5.69		+0.05	-
GAM Europe	$14.28		+0.14	-
GAM Global A	$20.18		+0.10	-
GAM Global D	$19.95		+0.10	-

Jardine Fleming Unit Trusts Ltd - Contd.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	-	2.9	Φ
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	-	2.8	-
Gold Flds Prop R		[illegible]	[illegible]	[illegible]	[illegible]	-	5.9	11.3
SA Brews	†	[illegible]	[illegible]	[illegible]	[illegible]	-	2.1	-
Standard Bank		[illegible]	[illegible]	[illegible]	[illegible]	-	1.5	-
Tiger Oats		937	—	1100	780	-	2.0	18.0
Tongaat-Hulett		737	—	780	721¼	-	2.3	16.0

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	—	[illegible]	9472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as [illegible]

[illegible]

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Equities confront the Budget in confident mood

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

UK stocks were by no means spooked by the imminence of today's Budget, or by the rather poor display by Wall Street on Friday and some of the Asian markets early yesterday.

Instead, the leaders made rapid progress during the early part of the session, before running out of puff during the last few minutes of trading and eventually closing the session modestly higher on balance.

But the mood in the second-liners and smallcaps remained as positive as ever, with their indices advancing further into previously untouched territory.

Apart from the Budget, there were other excuses for the market to have back-tracked, notably the potential for upsets in the long list of economic data due this week from both sides of the Atlantic.

These include domestic inflation and retail sales numbers, average earnings and the public sector borrowing requirement, all for February. In the US, the two most important items of economic news include inflation and industrial output for last month.

Sterling showed no signs of retreating from its position of strength, built over past sessions, with the Bank of England's trade-weighted index holding around the 107.0 mark, its best level for about 9 years.

At the end of the session, the FTSE 100 had recorded a 2.8 gain at 5,785.1, having recovered from an early dip and then moving up to a session high of 5,813.4, up 31.1, not long after trading started.

A slightly nervous opening by the second-liners was quickly overcome and the FTSE 250 index edged its way forward to settle at a record closing high of 5,367.8, up 10.2. At its best, the 250 touched an intra-day peak of 5,369.1.

The FTSE SmallCap delivered a similar performance to that of the 250, easing a fraction during initial exchanges before stabilising and embarking on another good performance. It settled up 5.0 at an intra-day and closing high of 2,559.9.

London's initial wobble was caused by investors' unease over developments in the US where the Dow Jones Industrial Average fell 57 points on Friday amid persistent rumours about President Clinton's private life. However, the Dow recouped all of those losses early yesterday afternoon.

Tokyo's sharp decline was another bearish factor, although that was offset by a minor improvement by the Hong Kong market.

Dealers said the London market had prepared itself for a broadly neutral Budget, as far as stocks were concerned, although one said he would have preferred a more cautious approach to the event. "It's Mr Brown's second Budget. He's got three more years to play with and if he is going to get tough, he will do it now rather than later."

He said the only thing the market could be reasonably certain to expect was increased taxation on road fund licences, alcohol and tobacco – "the usual whipping boys," as he put it.

Trading volume was restrained by the institutions' reluctance to deal in large sizes so near to the Budget. At 6pm, turnover had reached 913.6m shares.

NatWest caution on oil

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Leading oil stocks were flat as the market's principal oil price bull finally bit the bullet and cut its top-of-the-range forecasts.

NatWest Securities had steadfastly maintained its $20-a-barrel figure for Brent. However, with the first quarter almost out of the way and Brent slipping below $13, the broker has made an "adjustment" and reduced to $18 for the year.

Nevertheless, NatWest remains chipper for the long term. A spokesman for the oils team commented: "We are still looking for a recovery over the balance of the year. The risks are firmly on the upside."

While few oil specialists believe oil is stuck permanently at this level there is a general view that something has to happen before it turns the corner and so far Opec has shown no strong inclination to stem supply.

And one analyst commented: "The sector is at a massive premium if you believe in $12 oil."

The majors were marginally firmer yesterday. In the exploration and production sub-sector, Enterprise fell 3 to 543p and Lasmo 2 to 272p.

Continuing bid speculation sent mobile phones group Orange to an all-time high. The shares jumped 27 or 7 per cent to 408p, the best performance in the FTSE 100, in solid trade of 9.5m.

Comments from British Aerospace that it had no plans to sell its 21 per cent stake any time soon did little to dampen demand for the stock and one BAe specialist said: "I still think British Aerospace would like to sell this stake although it may feel the timing isn't right at this stage."

Positive notes from several brokers also helped boost sentiment in the stock. NatWest Securities yesterday raised its 12-month share price target to 416p from 374p and retained its "add" recommendation.

Analysts at NatWest said: "While some short-term issues remain, management's vision of a wire-free world – embraced by the market – could well prove to be correct on a longer-term view."

JP Morgan is also a fan of the stock and in a recent note to clients said: "We continue to expect the stock to benefit from accelerating growth in the UK cellular market and believe the management's strategy of strengthening the coverage and capacity of its network is likely to prove to be the correct one in the longer term."

BAe closed 5 ahead at £19.56 with speculation that it is about to dispose of its property portfolio also a talking point. Dealers said news of a director selling shares had checked a further advance in the stock.

Selected pharmaceuticals stocks came off the boil yesterday as Goldman Sachs turned cool on the sector.

Although it acknowledges the continued pressure of takeover activity and the low inflation outlook, the US broker has reduced its weighting recommendation for the UK and European stocks arguing that "a sense of reality must be introduced into the underlying fundamentals."

Goldman is concerned about rising costs, the sustainability of growth, the lack of pricing power and risks to products.

Its main target is Roche of Switzerland, which lost ground after problems with its obesity drug. But the pharmaceuticals team also cut its earnings numbers on SmithKline Beecham and Zeneca and went from "market outperformer" to "market performer" on both.

SmithKline ended the day 20 lower at 734p and Zeneca, which was creeping towards its historic high last week, retraced 99 to £26.00.

Reports that tomorrow's official retail sales data for February will show a decline on the previous month's figures cast a shadow over most of the leading stocks in the sector.

Dixons falls

The list of fallers included electrical goods retailer Dixons which surrendered 6¼ to 472½p. Next, which fell 8½ to 725½p. Also down was Boots, which gave up 11½p to 898½p as reports circulated that its Boots the Chemists division will next week announce a major restructuring of its management.

Construction-related stocks are about to enter the results season and have seen buying interest sparked by strong figures from housebuilders. Aggregate Industries was one of the better performers in the FTSE 250. The shares rose 2¼ to 60½p.

Hanson was also a strong performer, climbing 13½ to 365p, helped by Merrill Lynch reiterating its "accumulate" stance.

Mark Hake at the broker increased his price target for the shares from 370p to 390p, based on the likely sale of the Grove subsidiary and potential resolution of the issue of environmental liability.

However, investor interest was patchy, with Wolseley suffering the worst performance in the Footsie, losing 24 to 505p ahead of results due today.

The continuing investor demand for information technology stocks was shown by the premium to which Guardian IT jumped on its first day. The stock was placed at 255p and leapt to 411½p.

Anite Group, the software and networking company, saw 2.8m traded as the stock gained 4 to 75p following the announcement that Fidelity, the big US investor, had increased its stake by a percentage point, taking it over 6 per cent, or 14.6m shares.

The recent decision by the committee which oversees the FTSE Actuaries UK share indices that Misys would be the first reserve for the Footsie saw it rise 132½ to £29.12½.

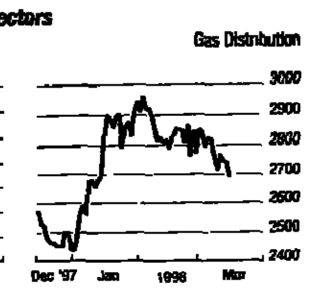
Attention also turned to Sema Group, which, with a market capitalisation of about £2.5bn, could enter the Footsie in the near term. Sema Group shares rose 82½ to £22.37½.

Lavendon Group, the powered access company floated at 140p 17 months ago, rose 28½ to 393½p after unveiling a 70 per cent pre-tax profit rise.

HSBC was strong in early trading on speculation the bank was planning a link with JP Morgan. The shares hit £19.15 at best before tracking back to £18.85, a net gain of 27.

Gallaher retreated 19 to 354p following revelations that the company's executives knew of the dangers of cancer from smoking years before acknowledging cigarettes could damage health. Imperial Tobacco fell 10½ to 401¼p in sympathy.

Best and worst performing sectors



Source: Datastream/ICV

FT 30 INDEX

	Mar 16	Mar 13	Mar 12	Mar 11	Mar 10	Yr ago	*High	*Low
FT 30	3660.6	3652.4	3654.5	3693.8	3682.1	2897.0	3700.2	3646
Ord. div. yield	3.00	3.01	3.00	2.98	2.98	3.90	4.22	2.98
P/E ratio net	23.83	23.82	23.82	23.83	23.76	17.83	23.83	15.90
P/E ratio nil	23.42	23.32	23.41	23.62	23.57	17.81	23.82	13.71

FT 30 since compilation: high 3700.3 03/03/98; low 49.4 26/06/40. Base Date 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3652.6	3652.1	3656.0	3647.1	3654.2	3656.8	3656.8	3665.1	3665.5	3673.7	3646.0

STOCK MARKET TRADING DATA

	Mar 16	Mar 13	Mar 12	Mar 11	Mar 10	Yr ago
SEAQ bargains	92,904	84,793	85,817	80,977	83,040	67,730
Equity turnover (£m)†	-	4285.9	3769.3	3143.8	2744.9	2767.5
Equity bargains†	-	73,108	78,945	70,295	78,295	51,799
Shares traded (mil)†	-	1024.0	924.6	858.0	783.7	1053.6
Total market bargains	-	88,767	89,162	82,997	83,477	na
Total turnover (£m)	-	5223.5	4783.6	5372.7	4187.3	na
Total shs traded (m)	*913.6	1238.5	1132.8	1182.7	1054.9	na
Tradepoint turnover (£m)	20.7	31.8	16.4	37.2	35.8	0.9
Tradepoint volume	6,248	8,365	5,237	8,331	7,372	1,020

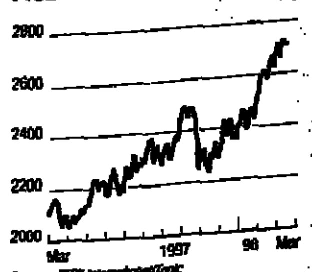
†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ subject to revision next day.

■ London market data

Rises and falls		52 Week highs and lows		LIFFE Equity options	
Total Rises	872	Total Highs	287	Total contracts	20,725
Total Falls	801	Total Lows	28	Calls	12,635
Same	1,635			Puts	8,091

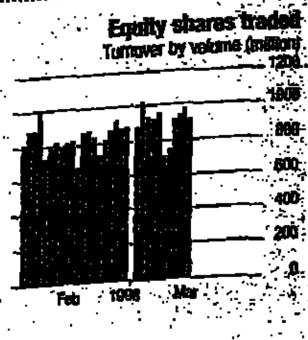
Mar 16 *Data based on Equity shares listed on the London Share Service.

FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5785.1	+2.8
FTSE 250	5367.8	+10.2
FTSE 350	2779.6	+2.1
FTSE All-Share	2710.61	+2.23
FTSE All-Share yield	2.86	2.86
FT 30	3660.6	+8.2
FTSE Non-Fins p/e	21.62	21.70
FTSE 100 Fut Mar	5800.0	+19.0
10 yr Gilt yield	5.99	6.04
Long gilt/equity yld ratio	2.14	2.11

Best performing sectors

1 Support Services +1.7
2 Engineering: Vehicles +1.5
3 Other Financial +0.8
4 Electricity +0.7
5 Banks: Retail +0.7

Worst performing sectors

1 Gas Distribution −1.8
2 Extractive Inds −1.7
3 Pharmaceuticals −1.3
4 Insurance −1.3
5 Tobacco −1.0

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5770.0	5800.0	+19.0	5824.0	5770.0	14886	39936
Jun	5851.0	5872.5	+21.5	5895.0	5845.0	24145	66465
Sep	-	5940.0	+19.0	-	-	0	2585

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	5373.0	+22.0	-	-	0	591
Jun	-	5418.0	+22.0	-	-	0	5862

■ FTSE 100 INDEX OPTION (LIFFE) (*5791) £10 per full index point

	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P
Mar	210	3	162	5½	118	13½	78½	26	46½	48½	28½	77	13	117	6½	169½
Apr	283½	59	245	71½	208½	83½	174	102	144	122½	113½	145	92	174	70	204½
May	332	95½	295½	108	262	125	232	145	202	166	172	186½	148½	215	127½	243½
Jun	401	134½	365½	148½	334	167	302½	186	272	207	243½	227	213½	252	191	280
Dec†	642	247½			581½	284½			520½	324			460½	368		

Calls 3,913 Puts 2,807

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P
Mar	181	6½	135½	10½	94	19	61	36	35½	60½	18	93	9½	134	4½	179
Apr	262	63½	225½	76½	91½	92	159½	109½	130	130	185	154½	83	182½	64	213
May	317	103	282½	117½	250	134½	219	153	190½	174	164	197	140	222	118	249½
Jun	383½	140½			316½	170½			257½	211			203	254½		
Sept	506	204½			433½	236½			382½	272			328½	314		

Calls 4,763 Puts 878 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997/98 High	1997/98 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*100	100	35.0	100	100	Advent 2 VCT	100		–	–	–	–
–	F.P.	39.1	250	220	†BGR	250		LW2.9	2.9	1.5	25.8
–	F.P.	861.4	107	94	Bass B	97		–	–	–	–
–	F.P.	–	12	6	Eurotel 01/03 Wts	7		–	–	–	–
§255	F.P.	210.7	447½	411½	Guardian IT	411½		–	–	–	72.0
§198	F.P.	345.7	202½	189	Monsoon	194½		L4.0	2.2	2.6	22.2
§125	F.P.	10.6	180½	137½	†Peasant Int	160½	+73	W3.18	2.5	–	20.2
§130	F.P.	57.1	138½	124½	Quadrant Health	138½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	1997/98 Low	Stock	Closing price p	+or-
3	Nil	3/4	¼pm	¼pm	Pex	¼pm	
94	Nil	20/3	112½pm	85½pm	Wates City of London	96*pm	

pm premium.

FTSE GOLD MINES INDEX

	Mar 13	% chg on day	Mar 12	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1070.76	+0.8	1061.92	1810.38	2.30	–	1810.38	891.23
■ Regional Indices								
Africa (14)	1008.80	−0.7	1016.35	2130.09	5.48	18.79	2130.09	921.78
Australasia (7)	1306.82	+1.4	1288.15	2063.45	2.67	17.27	2068.91	833.63
North America (11)	1074.83	+1.3	1061.31	1693.35	1.14	40.16	1693.35	864.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Mar 16	Day's chge%	Mar 13	Mar 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5785.1	—	5782.3	5794.8	4373.3	2.81	2.39	2.10	21.20	38.13	2514.36
FTSE 250	5367.8	+0.2	5357.6	5336.9	4692.0	3.05	2.55	2.07	19.81	18.19	2281.04
FTSE 250 ex IT	5408.3	+0.2	5397.5	5376.5	4734.9	3.14	2.64	2.13	18.68	18.71	2306.44
FTSE 350	2779.6	+0.1	2777.5	2780.4	2163.0	2.86	2.42	2.09	20.92	16.65	2467.19
FTSE 350 ex IT	2783.8	+0.1	2781.8	2784.9	-	2.87	2.43	2.10	20.69	16.88	1267.40
FTSE 350 Higher Yield	2758.2	.....	2759.1	2756.6	2086.8	3.61	3.12	1.99	17.44	18.53	2086.40
FTSE 350 Lower Yield	2817.9	+0.2	2812.7	2821.2	2245.9	2.11	1.72	2.27	26.11	14.85	2037.18
FTSE SmallCap	2559.92	+0.2	2554.85	2536.45	2385.19	2.87	2.32	1.56	27.95	7.79	2208.86
FTSE SmallCap ex IT	2555.01	+0.3	2548.45	2529.06	2373.86	3.06	2.48	1.62	25.16	7.24	2225.48
FTSE All-Share	2710.61	+0.1	2708.38	2709.79	2135.02	2.86	2.41	2.06	21.26	15.73	2441.52
FTSE All-Share ex IT	2717.14	+0.1	2714.89	2716.66	-	2.88	2.44	2.08	20.89	16.00	1259.10

■ FTSE Actuaries Industry Sectors

	Mar 16	Day's chge%	Mar 13	Mar 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4510.55	+0.1	4504.39	4521.29	4121.66	3.38	2.91	1.83	20.35	26.21	2054.10
12 Extractive Industries(5)	3214.06	−1.7	3270.49	3255.08	4123.62	4.26	3.82	2.08	14.11	67.00	1011.31
15 Oil, Integrated(4)	4965.82	+0.5	4942.46	4972.91	4225.82	3.39	2.91	1.78	20.74	17.89	2322.35
16 Oil Exploration & Prod(13)	3299.12	−0.5	3315.84	3289.18	3648.52	1.75	1.45	1.93	37.18	21.16	2042.70
20 GEN INDUSTRIALS(222)	2186.92	+0.4	2179.20	2182.94	2049.65	3.41	2.96	2.25	16.33	11.50	1274.22
21 Construction(38)	1618.90	+0.3	1613.61	1596.67	1374.59	2.93	2.36	2.33	18.28	4.25	1430.73
22 Building Matls & Merchs(27)	1893.21	+0.2	1889.16	1871.08	1915.80	4.03	3.32	2.60	11.92	0.61	1014.99
23 Chemicals(24)	2814.34	−0.1	2818.17	2801.86	2339.03	3.33	3.10	1.83	20.50	22.65	1431.64
24 Diversified Industrials(11)	1477.38	+0.1	1475.44	1484.35	1551.57	3.82	3.55	2.24	14.62	10.72	901.76
25 Electronic & Elect Equip(27)	2355.48	+0.6	2341.50	2333.21	2288.92	3.65	2.96	1.49	22.98	13.43	1293.94
26 Engineering(61)	2937.75	+0.3	2928.21	2907.45	2637.28	3.21	2.83	2.41	16.18	20.65	1883.73
27 Engineering, Vehicles(10)	3946.79	+1.5	3888.50	3828.17	2897.01	2.17	1.98	3.35	17.17	0.85	2153.51
28 Paper, Pckg & Printing(24)	2261.25	+0.4	2252.31	2217.19	2582.12	4.52	3.90	2.04	13.57	15.02	1011.44
30 CONSUMER GOODS(90)	5656.21	−0.8	5701.69	5747.23	4189.85	2.48	2.30	2.00	25.18	32.11	2221.64
32 Alcoholic Beverages(6)	3770.21	−0.8	3799.71	3891.32	2903.13	3.08	3.05	2.41	16.84	0.31	1452.56
33 Food Producers(24)	3827.07	+0.4	3813.69	3891.90	2910.44	2.75	2.35	2.05	22.22	19.18	1841.60
34 Household Goods & Texts(24)	3375.72	+0.2	3369.00	3344.97	2948.00	3.22	2.88	2.13	18.23	4.59	1405.81
36 Health Care(14)	2347.21	+0.2	2342.23	2347.51	2200.40	2.08	1.84	1.96	30.77	1.81	1486.58
37 Pharmaceuticals(19)	9558.29	−1.3	9683.35	9716.53	8570.79	1.82	1.70	1.91	36.07	85.22	3414.99
38 Tobacco(3)	5191.77	−1.0	5245.02	5224.77	4345.16	4.62	4.37	1.78	15.19	0.00	1417.00
40 SERVICES(279)	3268.16	+0.2	3260.78	3246.32	2678.54	2.58	2.10	2.00	24.25	10.18	1786.32
41 Distributors(28)	2733.09	−0.3	2740.87	2751.61	2772.83	3.46	2.84	1.93	18.70	16.99	1066.51
42 Leisure & Hotels(27)	3731.60	−0.1	3735.08	3705.03	3579.74	2.71	2.16	2.30	20.11	46.13	2110.53
43 Media(41)	4375.64	−0.1	4378.62	4385.69	4379.12	2.34	1.97	2.17	24.53	21.48	1647.33
44 Retailers, Food(14)	2897.47	+0.3	2887.66	2874.38	1935.99	2.94	2.35	2.29	18.54	3.94	1951.93
45 Retailers, General(49)	2339.90	−0.6	2354.09	2381.43	2054.32	3.04	2.43	2.32	17.78	6.19	1412.82
46 Telecommunications(10)	3589.12	+0.5	3571.80	3535.41	2309.59	2.45	1.98	1.51	33.65	4.04	1745.11
47 Breweries, Pubs & Rest.(24)	4118.06	−0.3	4131.25	4038.68	3424.24	2.87	2.29	2.41	18.12	15.31	2039.42
48 Support Services(61)	4529.49	+1.7	4453.12	4396.48	2896.91	1.31	1.11	2.40	39.83	3.35	2970.39
49 Transport(25)	3359.90	+0.4	3345.35	3334.20	2867.50	3.06	2.50	1.22	33.35	8.82	1485.57
60 UTILITIES(23)	3668.12	+0.1	3663.58	3670.21	2727.59	4.24	3.39	1.69	17.44	6.35	1728.96
62 Electricity(9)	4154.43	+0.7	4124.17	4129.82	2881.38	4.49	3.59	2.18	12.79	7.28	2396.88
64 Gas Distribution(2)	2692.78	−1.8	2741.44	2747.53	1544.34	2.42	1.93	‡	‡	0.00	1542.33
68 Water(12)	3229.98	+0.4	3217.22	3224.55	2551.64	5.29	4.23	2.20	10.72	10.26	1961.61
69 NON-FINANCIALS(636)	2682.77	.....	2683.82	2683.05	2180.50	2.91	2.48	1.99	21.62	11.64	2168.17
70 FINANCIALS(110)	5648.14	+0.4	5624.44	5642.71	3915.56	2.81	2.31	2.32	19.12	57.50	2602.08
71 Banks, Retail(12)	8259.98	+0.7	8200.40	8222.02	5681.61	2.85	2.28	2.32	18.90	113.05	2890.71
73 Insurance(17)	2645.21	−1.3	2678.70	2701.35	1729.98	3.21	2.90	2.90	13.45	29.86	2172.97
74 Life Assurance(6)	7156.08	+0.1	7148.19	7157.02	4735.02	2.60	2.24	2.40	20.09	0.00	3150.60
77 Other Financial(27)	4563.59	+0.8	4529.44	4556.25	3296.65	2.39	1.95	2.19	23.89	16.19	2757.83
79 Property(45)	2372.25	+0.3	2365.18	2370.47	1905.41	2.74	2.25	1.42	32.08	4.64	1544.36
80 INVESTMENT TRUSTS(119)	3828.45	+0.1	3824.05	3809.32	3359.93	2.05	1.65	1.17	52.00	11.30	1388.53
89 FTSE All-Share(866)	2710.61	+0.1	2708.38	2709.79	2135.02	2.86	2.41	2.06	21.26	15.73	2441.52
105 FTSE All-Share ex IT(748)	2717.14	+0.1	2714.89	2716.66	-	2.88	2.44	2.08	20.89	16.00	1259.10
Information Technology	1453.90	+1.7	1429.41	1402.65	-	0.59	0.47	2.60	80.00†	1.49	1455.62
FTSE Fledgling	1391.57	+0.4	1385.74	1379.66	1339.56	3.18	2.56	1.38	28.44	4.92	1530.31
FTSE Fledgling ex IT	1414.21	+0.5	1406.87	1401.04	1361.01	3.58	2.87	1.42	24.75	5.46	1560.22
FTSE AIM	1042.4	+1.1	1031.5	1022.0	–	1.17	0.93	0.51	80.00†	2.30	961.68

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5787.3	5798.4	5779.5	5786.8	5784.8	5792.0	5791.9	5790.0	5813.4	5773.5
FTSE 250	-	5355.9	5360.4	5360.4	5361.4	5360.1	5362.4	5363.7	5368.6	5369.1	5354.5
FTSE 350	-	2779.3	2783.2	2776.7	2779.5	2778.7	2781.7	2781.8	2781.6	2789.9	2775.0
FTSE SmallCap	2554.29	2554.83	2556.60	2557.66	2558.78	2559.21	2559.16	2559.40	2559.62	2559.93	2554.26
FTSE All-Share	-	2710.00	2713.78	2707.82	2710.50	2709.77	2712.56	2712.82	2712.42	2719.77	2706.42

Time of FTSE 100 Day's high: 9:21:00 Day's low: 16:28:00. FTSE 100 1997 High: 5829.8 (11/03/98) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 9:21:00 Day's low: 16:28:00. FTSE All-Share 1997 High: 2719.80 (11/03/98) Low: 1980.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Annual review changes please see FTSE Intl website ftse.com. For Quarterly Review Changes see website www.ftse.com. Deletion: Healthcall Group (FTSE Fledgling)

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

هيكلة الأصول

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 16 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Mar 16 / Frs.)

[illegible]

CZECH REP (Mar 16 / Koruna)

[illegible]

DENMARK (Mar 16 / Kr)

[illegible]

FINLAND (Mar 16 / Mkk)

[illegible]

FRANCE (Mar 16 / Frs.)

[illegible]

GERMANY (Mar 16 / Dm.)

[illegible]

GREECE (Mar 16 / Drachma)

[illegible]

ITALY (Mar 16 / Lira)

[illegible]

NETHERLANDS (Mar 16 / Fls.)

[illegible]

NORWAY (Mar 16 / Kroner)

[illegible]

POLAND (Mar 16 / Zloty)

[illegible]

PORTUGAL (Mar 16 / Escudo)

[illegible]

SPAIN (Mar 16 / Pts.)

[illegible]

SWEDEN (Mar 16 / Kronor)

	Price	+/-	High	Low	Yld	P/E
ABB A♦	109	...	127.50	78	1.9	47.0
ABB B	107	-.50	128	75.50	2.0	46.1
AGA A	122	+1	125	97	2.5	27.1
AGA B	113	-.50	122.50	93.50	2.7	24.8

SWITZERLAND (Mar 16 / Frs.)

[illegible]

TURKEY (Mar 16 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Mar 16 / Yen)

[illegible]

HONG KONG (Mar 16 / H.K.$)

[illegible]

INDONESIA (Mar 16 / Rupiah)

[illegible]

MALAYSIA (Mar 16 / MYR)

[illegible]

NEW ZEALAND (Mar 16 / NZ $)

[illegible]

SINGAPORE (Mar 16 / S$)

[illegible]

AUSTRALIA (Mar 16 / Aus$)

[illegible]

SOUTH KOREA (Mar 16 / Won)

[illegible]

TAIWAN (Mar 16 / TW $)

[illegible]

THAILAND (Mar 16 / Baht)

[illegible]

MONTREAL (Mar 16 / Can $)

4 pm close

[illegible]

MEXICO (Mar 16 / Peso)

12.30pm

[illegible]

AFRICA

SOUTH AFRICA (Mar 16 / Rand)

[illegible]

AMERICAS

CANADA

TORONTO (Mar 16 / Can $)

4 pm close

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 13 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MARCH 12 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	214.86	1.5	190.68	174.08	202.93	211.85	0.6	3.67	211.70	189.42	173.40	201.17	210.54	243.87	190.26	224.13
Austria (23)	210.37	1.0	186.70	170.45	198.69	198.55	0.3	1.64	208.36	186.43	170.67	197.99	197.84	213.59	175.14	186.23
Belgium (26)	298.60	2.7	265.00	241.94	282.02	276.00	2.0	2.53	290.81	260.20	238.20	276.34	270.52	298.60	227.73	238.80
Brazil (30)	258.05	1.9	229.02	209.09	243.73	538.27	2.0	1.59	253.30	226.64	207.48	240.70	527.85	322.44	184.94	240.57
Canada (120)	239.60	-0.3	212.63	194.13	226.29	244.63	-0.4	1.64	240.34	215.04	196.86	228.38	245.54	240.34	178.27	198.17
Denmark (34)	484.92	2.3	430.35	392.90	457.99	456.69	1.6	1.29	474.22	424.30	388.43	450.62	449.38	484.92	348.27	370.08
Finland (28)	367.30	1.9	325.96	297.60	346.90	425.04	1.2	2.12	360.51	322.57	295.29	342.58	419.84	367.30	243.25	263.54
France (79)	275.76	1.2	244.73	223.43	260.45	263.24	0.5	2.10	272.54	243.85	223.23	258.98	261.99	275.76	208.81	220.18
Germany (58)	262.05	1.7	232.56	212.32	247.50	247.50	1.1	1.27	257.59	230.47	210.99	244.77	244.77	262.06	193.39	199.34
Hong Kong, China (66)	344.59	0.9	305.82	279.20	325.46	342.63	0.9	4.64	341.39	305.45	279.63	324.40	339.48	580.03	262.93	469.49
Indonesia (27)	48.46	11.2	43.00	39.26	45.77	288.34	2.0	2.34	43.58	39.00	35.70	41.42	282.75	254.90	27.67	234.62
Ireland (16)	503.29	2.0	446.65	407.78	475.34	513.78	0.4	1.93	493.38	441.45	404.12	468.83	511.94	503.29	321.33	335.88
Italy (54)	147.41	2.4	130.82	119.44	139.23	196.91	1.8	1.19	143.95	128.80	117.91	136.79	193.46	147.41	83.01	85.17
Japan (481)	103.46	3.3	91.82	83.83	97.72	83.83	2.2	0.85	100.17	89.63	82.05	95.19	82.05	141.12	88.52	112.16
Malaysia (107)	208.08	4.5	184.67	168.60	196.53	299.32	1.1	2.30	199.12	178.16	163.10	189.22	296.02	643.09	113.56	643.09
Mexico (29)	1585.42	0.9	1407.01	1284.57	1497.39	14834.54	0.8	1.53	1571.67	1406.23	1287.34	1493.48	14722.26	1901.98	1326.16	1328.16
Netherlands (19)	471.51	2.2	418.45	382.04	445.33	440.61	1.6	2.07	461.35	412.79	377.89	438.40	439.85	471.51	330.32	350.17
New Zealand (14)	77.63	2.2	68.90	62.90	73.32	70.64	1.6	4.62	75.95	67.95	62.21	72.17	69.56	96.47	71.49	85.63
Norway (38)	327.89	2.0	290.82	265.51	309.50	336.00	1.2	1.86	321.17	287.36	263.07	305.19	331.84	374.64	281.62	310.47
Philippines (22)	94.78	0.6	84.12	76.80	89.52	187.05	-0.1	1.10	94.24	84.32	77.19	89.55	187.27	198.83	57.54	198.63
Singapore (42)	225.90	2.5	200.48	183.03	213.35	166.20	0.9	1.93	220.48	197.27	180.59	209.51	164.70	407.47	144.01	407.47
South Africa (43)	290.80	0.4	258.08	235.62	274.66	315.83	0.1	2.76	289.59	259.11	237.20	275.18	315.43	368.00	227.66	368.00
Spain (33)	350.49	1.4	311.05	283.98	331.03	410.09	1.1	1.76	345.70	309.31	283.16	328.50	405.82	350.48	210.11	216.72
Sweden (49)	554.42	1.6	492.03	449.21	523.63	648.65	0.5	1.79	545.44	488.03	446.76	518.30	645.68	554.42	405.00	438.79
Switzerland (31)	394.76	1.5	350.34	319.85	372.84	361.30	0.8	0.98	389.08	348.13	318.69	369.72	358.42	394.76	250.13	256.81
Thailand (39)	33.84	10.1	30.04	27.42	31.96	53.00	3.4	5.88	30.75	27.51	25.18	29.22	51.25	84.87	13.10	82.46
United Kingdom (211)	377.85	0.7	335.33	306.15	356.87	335.33	-0.2	2.93	375.39	335.87	307.48	358.71	335.87	377.85	271.72	281.23
USA (638)	436.31	-0.1	387.22	353.52	412.09	436.31	-0.1	1.45	436.88	390.89	357.85	415.15	436.88	436.88	299.79	320.97
Americas (817)	395.99	-0.1	351.43	320.84	374.00	334.23	-0.1	1.46	396.42	354.69	324.71	376.70	334.61	396.42	274.59	294.02
Europe (899)	335.32	1.4	297.59	271.69	316.71	318.20	0.6	2.08	330.86	296.03	271.00	314.40	316.24	335.32	237.94	245.21
Nordic (149)	481.87	1.8	427.65	390.43	455.12	494.56	0.9	1.77	473.29	423.47	387.67	449.74	490.36	481.87	355.77	380.04
Pacific Basin (871)	113.74	3.0	100.94	92.15	107.42	93.19	1.9	1.59	110.48	98.85	90.49	104.98	91.47	158.99	95.32	133.33
Euro-Pacific (1570)	206.14	1.9	182.94	167.02	194.69	177.81	1.0	1.92	202.37	181.07	165.76	192.30	176.01	209.12	172.03	179.96
North America (758)	423.88	-0.1	376.18	343.44	400.34	423.44	-0.1	1.46	424.47	379.79	347.68	403.35	424.04	424.47	292.34	313.55
Europe Ex. UK (488)	304.25	1.7	270.02	246.52	287.36	300.15	1.1	1.61	299.07	267.59	244.96	284.19	297.02	304.25	213.38	220.34
Pacific Ex. Japan (390)	207.43	1.8	184.09	168.07	195.91	205.16	0.9	3.80	203.72	182.28	166.87	193.59	203.38	318.98	161.31	309.09
World Ex. US (1792)	209.93	1.7	186.31	170.10	198.28	184.88	0.9	1.91	206.37	184.65	169.04	196.11	183.14	212.69	175.30	183.88
World Ex. UK (2219)	273.85	0.8	243.03	221.88	258.64	249.60	0.5	1.52	271.70	243.10	222.55	258.18	248.44	273.85	211.16	222.46
World Ex. Japan (1949)	372.14	0.5	330.26	301.52	351.48	365.75	0.2	1.77	370.43	331.43	303.41	352.00	365.11	372.14	271.90	286.22
The World Index (2430)	282.64	0.8	250.84	229.01	266.95	257.35	0.4	1.67	280.47	250.95	229.73	268.52	256.34	282.64	216.61	227.47

Emerging markets: IFC investable indices

Dollar terms

Mar 13

[illegible]

4 pm close March 16

NEW YORK STOCK EXCHANGE PRICES

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
27	17½	Enron OilG	0.12	0.6	27	1688	22⅛	21¾	21¼	-1⅛
47	20¼	Ensco Inl x	0.10	0.4	15	9570	27⅝	25⅞	26⅛	[illegible]
30¾	22⅞	Entergy	1.80	6.5	37	5804	27⅝	27⅜	27⅝	+¼
2⅛	1⅞	EQK Realty				13	1⅞	1⅝	1⅝	[illegible]
37	23⅝	Equifx x	0.35	0.9	28	1044	u37	36⅞	37	+⅜
54⅞	23⅝	EquCos x	0.20	0.4	17	7303	u54⅞	53½	53¾	+⅞
35½	27⅞	Equitable	1.18	3.7	14	679	31⅝	31¼	31⅝	+½
34⅞	25¼	EqOfficeP	1.20	4.1		39421	29⅝	28½	29⅝	+⅜
64¾	39⅛	ELaudA x	0.34	0.5	39	892	u64⅞	64½	64⅞	+⅛
43½	33⅞	EsterBsc			16	95	47⅝	41½	41⅞	-⅞
10⅝	7	Ethyl x	0.25	3.0	11	578	8⅝	8⅜	8⅜	-⅛
19⅝	14⅞	EurFund	0.14	0.8		136	19	18⅝	19	+⅛
17⅞	15⅝	Excelsior	1.48	8.8		38	17⅛	16⅝	16⅞	
72⅞	36⅝	Exxon	1.60	2.2	9	10621	67⅝	70⅝	73⅜	+2⅜
67¾	48⅜	Exxon	1.64	2.6	18	15309	64⅞	63⅞	64⅞	-⅛

- F -

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
11½	6¾	FAI Insur	0.29	4.6	48	70	6¾	6¾	6¾	
16⅝	14	FT Deptn v	1.04	6.6		108	15⅞	15⅝	15⅞	+⅛
31	14⅞	FabriCntrA			21	300	28⅞	27⅞	28⅞	+½
68⅛	36⅛	FamMac	0.98	1.5	22	10043	66⅞	64⅞	65⅞	+⅛
10⅞	6¼	Fansteel			14	38	7⅛	7⅛	7⅛	-⅛
11⅛	4⅞	Farah Inc				99	6	5⅞	6	
84½	42	FDX Hl			18	4750	70⅞	69	70⅞	+2⅛
50¾	26⅞	FdNatLn x	0.48	1.0	25	13896	49⅞	48⅞	49	-⅛
28⅞	24½	Fed Rlty	1.72	6.9	21	220	25⅛	24⅞	25	+⅛
6⅝	5⅝	Fedders	0.08	1.4	16	333	5⅞	5⅞	5⅞	
51⅞	21	FedHighS	0.46	1.0	27	454	50⅞	49⅞	49⅞	-⅛
27½	19⅞	Federal Sg	0.71	3.1	18	1191	23⅛	22⅞	23⅛	-⅛
51	30	FdDpSt			18	9190	u51⅛	50⅞	51¼	+⅛
30⅛	18⅞	Ferro Corp	0.48	1.7		620	29¼	29⅞	29⅞	-⅛

- X - Y - Z -

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
97⅝	61½	Xerox x	1.44	1.5	22	5807	95⅞	94⅝	95	+½
68⅞	40½	Xtra Corp	0.88	1.3	21	359	66	65⅞	66	+⅞
27⅞	20¾	Yankee Egy x	1.34	5.4	15	129	24⅞	24⅝	24⅝	+⅛
50	34⅝	York Int	0.48	1.1	41	771	45¾	44⅞	45⅛	-⅞
15	4	Zapata	0.29	2.2	31	249	12⅞	12⅞	12⅞	-⅞
13½	5⅛	ZenithEl				1328	7⅛	7	7	
26¾	24½	Zenith Nat	1.00	3.6	17	17	27⅞	27⅞	27⅞	
8⅞	7⅞	Zeus Inc	0.73	9.2		139	8	7⅞	8	
32⅛	17¼	Zero	0.12	0.4	16	313	27⅛	26⅞	26⅞	+⅛
14	10½	ZweigFd	1.24	9.0		1461	13⅞	13⅞	13¾	+⅛
9¾	9	Zweig Tot x	0.84	3.8		878	9⅞	9½	9⅞	+⅛

Price Data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
£ New yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
z Dealings suspended

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GLOBAL EQUITY MARKETS

US INDICES

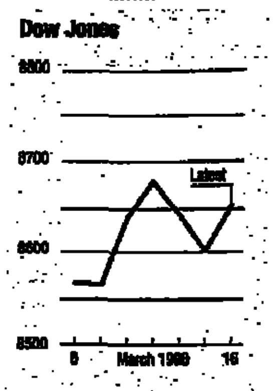
Dow Jones	Mar 13	Mar 12	Mar 11	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	8602.52	8659.56	8675.75	8675.75 (11/3/98)	6391.69 (11/4/97)	8675.75 (11/3/98)	41.22 (8/7/32)
Home Bonds	105.23	105.23	105.16	105.48 (15/1/98)	101.08 (14/4/97)	105.48 (15/1/98)	54.89 (1/10/81)
Transport	3548.45	3542.31	3525.33	3576.07 (12/2/98)	2222.87 (2/1/97)	3576.07 (12/2/98)	13.23 (8/7/32)
Utilities	274.98	276.07	275.68	276.71 (10/3/98)	209.47 (25/4/97)	276.71 (10/3/98)	10.50 (8/7/32)

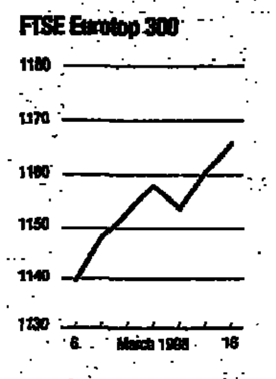
US DATA

TRADING ACTIVITY

Volume (million)	Mar 13	Mar 12	Mar 11
NYSE	597.800	585.424	655.260
Amex	28.282	29.002	27.877
NASDAQ	757.890	745.508	833.792

NYSE	Mar 13	Mar 12	Mar 11
Issues Traded	3,460	3,462	3,484
Rises	1,492	1,501	1,743
Falls	1,389	1,408	1,233
Unchanged	579	553	508
New Highs	283	243	318
New Lows	19	22	31





GERMANY

	Mar 16	Mar 13	Mar 12	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4883.85	4889.65	4839.60	4889.65	2848.77	4889.65	831.18

Day's high: 4904.05. Day's low: 4866.13.

FRANKFURT TRADING ACTIVITY — Volume : 14,758,590

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Dt Telekom	1,577,065	39.1	+0.25
BASF	868,194	72.85	+0.7
Deutsche Bk	644,312	132.3	+0.2
Daimler-Benz	498,529	181.5	+0.9
Siemens	475,081	112.6	-1.9
Commzbank	470,480	66.75	-1.36
Bayer	435,645	79.45	+0.25
Lflbeam	422,700	38.7	-0.9
IG Farben	358,000	2.2	

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Gold Zack	259	+65.5	+33.9
Technotrans	236	+45	+23.6
DT Beteilon	59.15	+10	+20.7
Singulus	221	+26	+13.3
Downs			
Froehlich	4.4	-1.25	-22.1
Sar Systeme	317	-23	-6.7
Andreae-N	68	-4.5	-6.2
Sixt	221.5	-14.5	-6.1

UK

	Mar 16	Mar 13	Mar 12	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5785.1	5782.3	5794.8	5829.8	4056.6	5829.8	986.9

Day's high: 5813.4. Day's low: 5773.5.

LONDON TRADING ACTIVITY — Volume : 913,800,080

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
BTR	20,000,000	193½	+3½
SmithKln Bch	15,000,000	734	-20
Shell	14,000,000	427	+1
ASDA	12,000,000	194¼	+¼
Brit Steel	12,000,000	143¾	+4¼
BT	11,000,000	611½	-6½
Centrica	11,000,000	104¾	-1¾
Reed Intl	11,000,000	578	-21
Williams	11,000,000	423	+½
Lloyds TSB	10,000,000	819	+4

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Triag Intl	8	+3	+60.0
Brit Aircraft	241½	+49	+25.4
ThesFennell	30½	+6	+24.6
File Mirror	52½	+10	+23.5
Downs			
Ideal Hardw	385	-120	-23.8
Airtech	75½	-10	-11.7
Limelight	33½	-3½	-9.5
SWP	2¾	-¼	-9.1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Mar	3580.0	3609.0	+53.0	3610.0	3555.0	12,658	50,558
Apr	3582.5	3611.5	+53.0	3609.0	3582.5	342	1,957
DAX							
Mar	4860.0	4904.0	+25.0	4923.5	4841.0	30,474	85,505
Jun	4893.0	4932.5	+25.5	4950.0	4872.0	12,233	76,310
OMX							
Mar	2830.25	2876.00	+27.00	2890.00	2830.25	6,865	28,314
Apr	2820.25	2861.00	+22.50	2878.00	2820.00	1,031	6,059
SOFFEX							
Mar	7293.5	7338.0	+65.0	7358.0	7293.5	4,907	21,362
Apr	7252.0	7347.0	+73.9	7363.0	7323.0	1,060	3,911

WORLD MARKETS AT A GLANCE

Country	Index	Mar 16	Mar 13	Mar 12	1997/98 High	1997/98 Low	Yield	P/E
Hungary	Bux	8450.60	8423.98	8401.03	8483.89 6/8/97	4291.30 6/1/97	na	na
Poland	WIG	18256.8	18575.2	18220.0	18582.70 11/3/98	13228.80 12/1/98	1	15.4

Hungary: Supported by rally in oil and gas group MOL, which gained more than 4 per cent.

Poland: Market ran into profit-taking after Friday's gains, and analysts warned of further losses following inflation data.

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

Buffetted bourses take the hint and rally

WORLD OVERVIEW

Warren Buffett is an investor well known for his belief that stock-picking, rather than market-timing, is the key to long-term success, *writes Philip Coggan.* So it is a nice irony that his weekend comments about US share prices helped prompt a rally in world markets yesterday.

Mr Buffett said that US shares were not generally overvalued, provided that interest rates did not rise and returns on equity remained high. Wall Street took the hint, with the Dow Jones Industrial average opening strongly yesterday.

Throw in a healthy Treasury bond market, amid rumours of big purchases by an Asian central bank, and a stronger dollar thanks to renewed worries about the health of the Japanese financial system, and one had the almost ideal background for European stock markets.

Bourses in Amsterdam, Brussels, Copenhagen, Frankfurt, Helsinki, Milan, Paris and Stockholm recorded closing highs.

The biggest move occurred in Greece, where the Athens bourse gained more than 7 per cent, as the drachma devalued by 12 per cent and joined the exchange rate mechanism ahead of hoped-for qualification for the single European currency in 2001.

Two other Mediterranean countries prone to devaluation – Italy and Spain – have seen sharp share price gains in recent months as it has become clear they will qualify for a single currency and will benefit from lower interest rates.

European stock markets have gained over the last three years from lower interest rates and from the prospects of economic recovery. But, as one analyst points out, lower oil prices have also played a part.

"Oil prices have fallen below $14 on three occasions since 1979 – 1993/94, 1988 and 1986. Two of those occasions saw explosive gains in European bond and equity markets, while 1998 also saw substantial advances," says Ian Harnett, director of European strategy at NatWest Markets.

"Equities gain from oil prices through lower input prices boosting margins; low inflation increasing real earnings growth and low interest rates boosting discount factors," said Mr Harnett.

"If, as our oil team expects, oil prices should return towards the $18-$20 range, increased exposure to the oil sector as part of a more defensive sector strategy is clearly called for."

EMERGING MARKET FOCUS

Drachma bears gifts for Greeks

The Athens stock market yesterday celebrated the drachma's entry to the European exchange rate mechanism in exuberant style.

International investors were jostling to pick up bargains in Greek shares following Saturday's 12.1 per cent devaluation of the currency under the terms of the ERM agreement.

The general index surged 7.3 per cent to 1,649, after touching the 8 per cent ceiling in early trading. It was little short of a stampede and it pushed volume as high as Dr41bn ($139m), more than double the daily average this year.

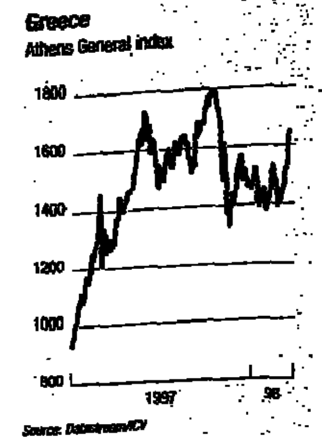
"The market seems convinced that Greece is on track for joining the Euro-club," said Evricos Sarsentis, chief analyst at Telesis Securities in Athens. "The currency looks stable, interest rates are coming off their highs and I don't think there will be further pressure on the drachma in the near future."

In its bid to qualify for economic and monetary union, the government plans measures to broaden privatisation, reduce public sector spending, and make labour markets more flexible. Economic growth this year is forecast to beat last year's 3.5 per cent.

Demand was strong yesterday for shares in exporting companies, which stand to gain most from the devaluation. Exporters had complained that the hard drachma policy – the currency was pegged to the ecu to reduce imported inflation – was squeezing Greek companies out of European markets.

"Investors clearly think Greece's competitiveness is on the rise," said Kostas Tseregounis, analyst at NBGI Equities, the London-based brokerage controlled by National Bank of Greece. "This shouldn't be a one-day reaction. There's potential for a bigger improvement.

Greece
Athens General index



Source: Datastream/ICV

Cements and metals producers should do well."

Titan Cement, the top-ranked Greek producer, Intracom, the electronics and telecoms equipment manufacturer, Silver & Baryte, which exports bauxite for the aluminium industry, and Attica Enterprises, the fast ferry operator, all hit the 8 per cent limit for price gains in a single session.

At the other end of the scale, shares in companies which depend on imports for a high percentage of turnover fell steeply. Two of Greece's biggest cosmetics distributors, Lavipharm and Sarantis, dropped by 5 and 8 per cent respectively on fears of a sharp fall in sales.

Greek banks also showed impressive gains following a jump in bond prices after weeks of slack trading. The banks have sizeable portfolios of government bonds, some amounting to over 30 per cent of the bank's total assets. "The prospect of lower interest rates in coming weeks has revived confidence in the banking sector," says Mr Tseregounis.

The revamped privatisation programme calls for swifter disposals of state-owned enterprises. The ceiling for sales of equity stakes in state corporations will be lifted from 25 per cent to 49 per cent.

Kerin Hope

Dow opens with strong performance

AMERICAS

US equities started the week on an upbeat note, buoyed by a positive interest-rate backdrop, a wave of mergers and favourable comments by Warren Buffett, the so-called Sage of Omaha, *writes Richard Tomkins in New York.*

In early afternoon trading, the Dow Jones Industrial Average was up 68 at 8,670.52 and the Standard & Poor's 500 index was 7.01 higher at 1,075.60.

Investor confidence was given a boost at the weekend when Mr Buffett remarked that, even at today's record levels, stocks need not be regarded as overvalued if companies continue to deliver strong returns on equity and if interest rates remain low.

Yesterday morning, interest rates were positive for equities because US Treasuries opened higher, pushing down yields. The yield on the benchmark 30-year bond, which earlier this month had been above the 6 per cent level, was at 5.87 per cent at noon.

Not all the news for equities was good. Mr Buffett's report to shareholders in Berkshire Hathaway, his investment vehicle, revealed that he had substantially cut his stake in McDonald's, the US fast-food company. That sent McDonald's shares down $1¼ to $53¾.

Another loser was Iomega, which saw its share price fall $1⅝ to $7 after warning that it would report flat revenues and *substantial losses* in the first quarter.

Also in the technology sector, Internet Communications lost $⅝ to $5⅛ after warning of fourth-quarter losses and first-quarter restructuring charges.

Elsewhere, however, merger activity gave some prices a *boost. Safety-Kleen* rose $11/16 to $28 7/16 after agreeing to a bid by Laidlaw Environmental Services, which was unchanged at $4⅛. *American General Hospitality* was up $5/16 at $27¼ after agreeing to merge with CapStar Hotel.

Aetna gained ground after agreeing to buy NYLCare Health, rising $¼ $84 1/16. But Alltel lost $1 1/16 to $44⅝ after announcing a deal to buy 360 Communications which tumbled $4 to $31⅝.

TORONTO cast aside the uncertainty that dogged it on Friday to move smoothly higher in early trading. Northern Telecom surged and the banking sector was also buoyant. At noon, the 300 composite index was up 42.64 at 7,427.70.

A rally for bonds helped lift banks. Royal Bank of Canada *gained 75 cents* to C$85.10 and there was no shortage of activity in Bank of Montreal which jumped C$1.05 to C$79. Toronto-Dominion Bank added 30 cents to C$64.

Roche fall sends Zurich lower

EUROPE

A sharp fall in Roche sent **ZURICH** lower. The pharmaceuticals giant came under pressure as downgrades from Goldman Sachs and Merrill Lynch followed hard on the heels of news that the US authorities could not make up their mind whether *to approve its* Xenical anti-obesity treatment.

Roche certificates tumbled SFr815 or 4.6 per cent to SFr16,840, contributing to a *66.8 fall in the SMI index to* 7,261.2, as the news from the US dashed hopes that in Xenical the company had developed a blockbuster *which would revive its pharmaceuticals* portfolio.

Goldman Sachs said it had dropped Roche from its global priority list and also reduced *its 1998* earnings estimates. The US investment bank added that it saw narrower profit margins and slower pharmaceuticals sales from 2000 to 2003.

Ciba fell SFr4.25 to SFr186.75 on profit-taking as an 84 per cent rise in 1997 net profits failed to live up to some expectations. ZKB recommended a switch into Clariant, SFr22 weaker at SFr1,516. Engineering group Sulzer fell SFr23 to SFr1,192 ahead of 1997 results due on Wednesday.

FTSE Actuaries Share Indices — European series

March 16 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1165.38	+0.42	+4.92	1.97	3.64	1178.21
FTSE Eurotop 100	2675.02	+0.18	+4.86	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1149.00	−0.07	−0.78	2.88	8.79	1177.47
300 Ex-UK	1175.35	+0.70	+8.16	1.47	0.71	1179.11
300 Eurobloc	1156.36	+1.04	+11.86	1.65	0.99	1161.83
300 Ex-Eurobloc	1174.60	−0.01	−0.06	2.19	5.55	1192.74
FTSE Eurotop 300 Economic Groups						
Resources	972.06	+0.96	+9.25	2.81	3.62	989.42
General Industries	1095.77	+0.85	+9.26	1.78	2.04	1100.60
Consumer Goods	1157.90	−0.97	−11.33	1.55	2.91	1173.38
Services	1122.68	+0.05	+0.58	2.09	2.88	1134.46
Utilities	1247.65	+0.42	+5.25	2.31	1.84	1264.66
Financials	1288.24	+1.03	+13.18	1.81	6.26	1302.05

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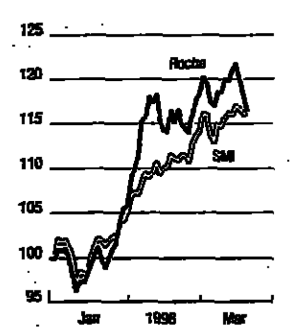
Roche
Certificates price and index (rebased)



Source: Datastream/ICV

In financials, CS Group rose SFr1.50 to SFr271.50 *although expectations for a* mostly favourable 1997 results announcement today were tempered on concerns that the figures could contain negative surprises.

ABB fell SFr21 to SFr2,176 after its ABB Switzerland subsidiary posted a 39 per cent drop in net 1997 profits.

Adecco put on SFr8 to SFr544 after its first ever domestic roadshow at the end of last week prompted renewed interest.

PARIS pushed higher on a combination of earnings hopes and banking merger rumours. The CAC 40, which broke above 3,600 at one stage, ended up 58.03 at a record 3,598.28.

Dollar gains added depth to the earnings *focus. Alcatel Alsthom and LMVH,* both big overseas earners, rose FFr50 or 5.7 per cent to FFr932 and FFr54 to FFr1,273 ahead of results statements. *France Telecom* rose FFr8.50 to FFr326.50 and Michelin FFr16.90 to FFr408.90.

Banks saw a resurgence of sector restructuring stories. BNP gained FFr26.50 to FFr455.5, Paribas FFr16.00 to FFr581 and Société Générale FFr66 to FFr1,146.

FRANKFURT pressed further into record territory in late electronic trade as Wall Street's early strength took the Xetra Dax index up to a high of 4,918.57, before it pulled back to close 33.35 higher at 4,905.59.

Puma, the sports shoe maker, ran up DM3.40 to DM41.90 as the market continued to digest last Friday's results news conference, which proved in line with most expectations.

Sportswear manufacturer Adidas picked up another DM5 to an all-time high of DM307 as continuing international results presentations, showing record 1997 results, revived interest in the stock. Deutsche Morgan Grenfell has raised its 1998 share price target of DM350.

Insurers found favour, with Allianz DM24 higher at DM590 and Munich Re DM25.30 ahead at DM828.30.

Deutsche Telekom rose 38 pfg to DM39.50 ahead of a press conference today at which the chief executive Ron Sommer is expected to give positive news about first-quarter profits.

Daimler Benz rose DM1.40 to DM162.40 as the company gave more details of its special payout of DM20 a share.

AMSTERDAM fended off a dull day in some of the international heavyweights to close with the AEX index up 8.06 at a record 1,116.83.

Helped by firmer bonds, financials supplied most of the upside pressure with Fortis Amev gaining Fl 3.80 to Fl 123.50 and Aegon, which puts out figures on Thursday, rising Fl 6.20 to Fl 255.50.

KLM was the day's strongest performer, adding Fl 3.90 or 4.7 per cent to Fl 87.50. Philips slipped Fl 1.70 to Fl 153.20 and Unilever, hit lately by a number of broker downgrades, fell Fl 2.60 to Fl 137.90.

MADRID edged up after fluctuating in a narrow band on light trading. The general index rose 0.31 to 630.92.

Telefónica, which gained over 10 per cent last week on reports of a possible flotation of its subsidiaries, fell Pta130 or 2 per cent to Pta6,270 on profit-taking. The company yesterday confirmed it would be spinning off its international division next year. The group said it was also planning to float its media unit within two years although it was retaining its mobile phone operations.

MILAN rose almost 2 per cent to a fresh all time high. The Mibtel index rose 411 to 22,189 defying expectations of consolidation after last week's strong run.

Continued speculation that Olivetti may become a takeover target for Mannesmann of Germany boosted the shares L225 or 9.9 per cent to L2,500. The Italian group rallied after Mannesmann's announcement last week that it was raising capital triggered speculation that the German engineering group may bid for Olivetti.

HELSINKI closed at an all time high thanks to strength in forestry shares and Nokia. The Hex index rose 29.66 to 4,303.42 ignoring weakness in Raisio. The food company fell FM35 or 4 per cent to FM845 on reports that Unilever was launching a cholesterol-cutting product which would compete with Raisio's Benecol.

COPENHAGEN gained on the strength of Tele Danmark, the telecoms group. The KFX-20 rose 1.11 to a record 229.83. Positive recommendations by Merrill Lynch, Den Danske Bank and Alfred Berg triggered buying in Tele Danmark, up DKr52 to DKr570.

DUBLIN made a muted response to the punt's revaluation at the weekend and the ISEQ index finished 15.11 higher at 5,117.57.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono, Peter Hall and Paul Gregan

São Paulo takes profits

SAO PAULO ran into modest profit-taking. The strong start on Wall Street cut no ice with local investors who *took the opportunity to* pocket some of the near 10 per cent gains racked up since the start of the month.

Among the heavyweight stocks, *Telebrás added* R$0.05 to R$22.70, but Eletrobrás came off R$0.56 to R$52.80 and Vale do Rio Doce R$0.71 to R$26.40. Volume was said to be moderate. At midsession, the Bovespa index was down 41 at 11,515.

MEXICO CITY also lost ground with the IPC index off 18.70 at 4,766.71 at midsession. Dealers said continued worries over weak oil prices kept sentiment in check.

Telmex improved 5 centavos to 22.70 pesos, but Empresas continued to harden, adding 42 centavos to 17.92 pesos on news that it had withdrawn its offer for a stake in a Spanish builder.

Johannesburg climbs again

SOUTH AFRICA

Shares in Johannesburg pushed higher for the sixth day running. The all share index ended just short of a five-month high, up 76.8 at 7,281.5. Industrials rose 0.9 per cent to 8,581.3, underpinned by derivatives activity ahead of Friday's expiries.

Among resource stocks, Amplats jumped close on 7 per cent to R76.50. Golds stayed dull, easing 0.48 per cent to 725.6.

Coalition move lifts Bombay

ASIA PACIFIC

Confirmation that the Bharatiya Janata party was finally on the way to forming a new coalition government prompted speculative buying which drove up **BOMBAY** by 1.92 per cent.

On Sunday, President K.R. Narayanan invited the BJP to form a government, after elections produced a hung parliament.

Analysts said, however, that foreign investors appeared to remain cautious, awaiting the allocation of portfolios before committing fresh funds.

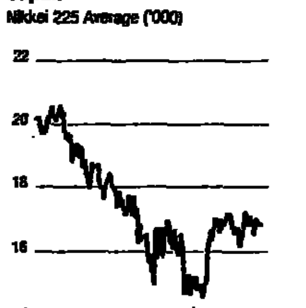
The BSE-30 index peaked at 3,787.68 before pulling back to close 71.18 per cent better at 2,832.51.

Much of the day's activity centred on local companies that may be offered a measure of protection by the government against the activity of multinationals.

Tata Iron & Steel climbed 3 per cent to Rs139.20. Associated Cement Companies gained 5.6 per cent to Rs1,426 and Reliance advanced 4.4 per cent to Rs176.60.

TOKYO came under pressure after Friday's gloomy economic data and a number of profit warnings, *writes Paul Abrahams in Tokyo.*

Japan
Nikkei 225 Average ('000)



Source: Datastream/ICV

The GDP figures indicated the economy was heading into recession, which undermined the yen against the dollar but boosted bonds. The currency's depreciation hit industries dependent on dollar-denominated raw materials, forcing the Nikkei 225 average down 1.2 per cent or 199 to 16,861.14.

The Topix index of all first-section shares fell 8.40 to 1,267.80 in exceptionally light trading of just 374m shares. The Nikkei 225 traded in a range between 17,062 and 16,792.

The paper and pulp sector was among the worst performers, down 2 per cent. The steel sector fell only 1 per cent, however, in spite of gloomy February production figures. Nippon Steel was up Y1 at Y242, the second most heavily traded stock. Kawasaki Steel fell Y3 to Y216.

The real estate sector was hard hit, down more than 2 per cent, after Mitsui Real Estate issued a profits warning and a cut in its dividend.

Pharmaceutical stocks fell 1.5 per cent. The sector is down more than 15 per cent *since* last summer as the threat of government-imposed price cuts due to take effect next month have taken their toll.

In Osaka, the OSE index fell 223 points to 16,847.

MANILA moved higher on rumours of presidential approval for deregulation of the local oil industry. Petron jumped to 6.30 pesos before settling at 6.20 pesos, up 30 centavos.

Total volume was said to be on the thin side with sentiment held in check by a Standard & Poor's downgrade for a number of banks. The composite index ended 20.83 ahead at 2,194.12.

JAKARTA closed slightly higher as domestic investors traded shares of companies controlled by newly appointed cabinet members. Overseas investors, however, remained sidelined as concerns lingered over reforms. The composite index rose 4.05 to 510.79.

Citra Marga, the toll road operator controlled by President Suharto's daughter, who was appointed social welfare minister, was the most actively traded share, gaining Rp25 to Rp650.

Astra, the car maker, gained Rp50 to Rp1,825 after its president, Bob Hasan, a long-time business associate and golf partner of President Suharto, was named as the new trade and industry minister.

HONG KONG saw a rally in Cheung Kong, HK$1 higher at HK$53 on Friday's news that the government had awarded the company a commercial and residential site in Kowloon at a lower-than-expected price of HK$2.9bn.

The Hang Seng index gained 124.51 to 11,181.54 in slim turnover of just HK$5bn, encouraged by softer interbank rates.

FT telecoms

FINANCIAL TIMES REVIEW OF THE TELECOMMUNICATIONS INDUSTRY

Tuesday March 17 1997

Although market liberalisation has finally arrived in most regions, hand-to-hand conflict still seems some way off. But a number of trends already suggest that global telecoms will be transformed within the next few years. **Alan Cane** reports

Business as usual despite phoney war

These are the days of phoney war for the principal combatants in global telecommunications. With the majority of the world's telecoms markets now formally open to competition, most operators and their customers are experiencing business much as usual rather than the expected tooth-and-claw rivalry.

January 1 this year may have signalled the official start of hostilities and there has been a scurry of legal spats over interconnection charges and tariff claims but the reality of hand-to-hand conflict still seems some way off.

Experience suggests this could have been expected. In the period immediately following market liberalisation in any industry, both competition and market regulation are immature, and in consequence the incumbents are able to rule the roost more or less unchallenged.

Brokers Credit Suisse First Boston argue in recent research on the European market: "For the next three years we expect the incumbent operators to continue earning well in excess of their cost of capital. This will be less true of the new entrants absorbing start-up losses." (A review of Europe's new competitors appears later in this survey).

Only when effective regulation levels the playing field can competition develop in a healthy manner. Those few countries such as the US and the UK where the telecoms market has been liberalised for some years can testify to the effectiveness of competition and regulation in lowering prices for consumers and stimulating market diversity.

Even in the US, however, a lack of regulation can help to stifle competition. AT&T, the largest US long-distance carrier has, for example, for the moment retreated from attempting to lease or buy phone lines from local operators to enter local markets because it was unable to secure prices that would make the effort worthwhile:

"AT&T is not going to spend money on this fool's errand," Michael Armstrong, the company's chief executive, memorably declared.

In the event, global telecoms liberalisation has got off to an untidy start. The World Trade Organisation, which sponsored last year's breakthrough negotiations leading to 69 nations signing up for market liberalisation, was forced to delay the starting date from January 1 to February 5 this year, because a number of countries were slow in ratifying the accord.

Some of them, including Brazil, Argentina and Poland have been given until July this year to do so.

A number of trends, however, already suggest that market liberalisation is only the beginning of a process which will see global telecoms transformed within the next few years.

The first is the fragility of the global grouping formed by the leading international operators to defend their home territories and increase their overseas reach. The problems faced by these alliances raise the question of whether they can fulfil their potential as "supercarriers" with truly global reach and market power.

Concert Communications, possibly the most advanced of the alliances, is in some disarray with the collapse of the merger between its parents, British Telecommunications and MCI of the US. Furthermore, BT has decided not to go ahead with an alliance with Telefónica of Spain, preferring instead to compete with the Spanish operator on its home territory. Telefónica dropped out of another European alliance, Unisource, to join Concert.

Global One, the alliance between Deutsche Telekom, France Telecom and Sprint of the US is also in difficulties. Its chief executive, the experienced European telecoms executive Viesturs Vucins, resigned "for personal reasons" after the company admitted its financial performance was below expectations.

Along with AT&T-Unisource, the alliance between the KPN of The Netherlands, Telia of Sweden, Swisscom, Telecom Italia and AT&T, the alliance had been hit by a precipitous drop in the cost of international calls caused by a combination of competition and technology.

The average cost of delivering a call in western Europe or the US fell by 25 per cent last year and is expected to fall again by the same amount this year. AT&T-Unisource has responded by trimming its carrier services division, responsible for sales to other carriers.

The Global One alliance could also be destabilised by a predator intent on acquiring Sprint, the third-largest US long-distance operator.

These difficulties are only the tip of the iceberg for the alliances. According to the consultancy Market Tracking International (MTI) in a recent report: "The problem is that none of the alliances' networks have yet become truly global. As they enter into the minefield of different regulatory systems, they are discovering just how difficult it is to keep their promises." Their promises, to customers, that is, to provide seamless services around the world.

It is significant that Equant, owned by an alliance of international airlines, has the most extensive reach of any global operator. According to MTI, Equant is "often the last resort of IT managers in multinationals as it offers coverage in many places the other global alliances do not".

The second trend is the growth of datacommunications and networks obeying the rules of the Internet (IP or Internet Protocol). All of this is sometimes described as the *datawave*, everything that goes with transporting data and voice traffic over an IP network.

Specialists in the datawave come from a computing rather than a telecoms background.

According to James Seaberg and a group of colleagues writing in a recent McKinsey Quarterly: "This is exactly the right moment for telecoms executives to take seriously both the transition to IP-based networks and the threat from datacom attackers. The coming battle will not be for the faint of heart. Value will migrate to the top two or three players in each industry segment."

Mr Seaberg points out that in the US alone the traditional telephone market is expected to be worth \$246bn in 2001, up from \$171bn in 1996. By comparison, the datacoms market, which did not exist five years ago, is expected to be more than \$60bn by 2001 up from \$8bn in 1996.

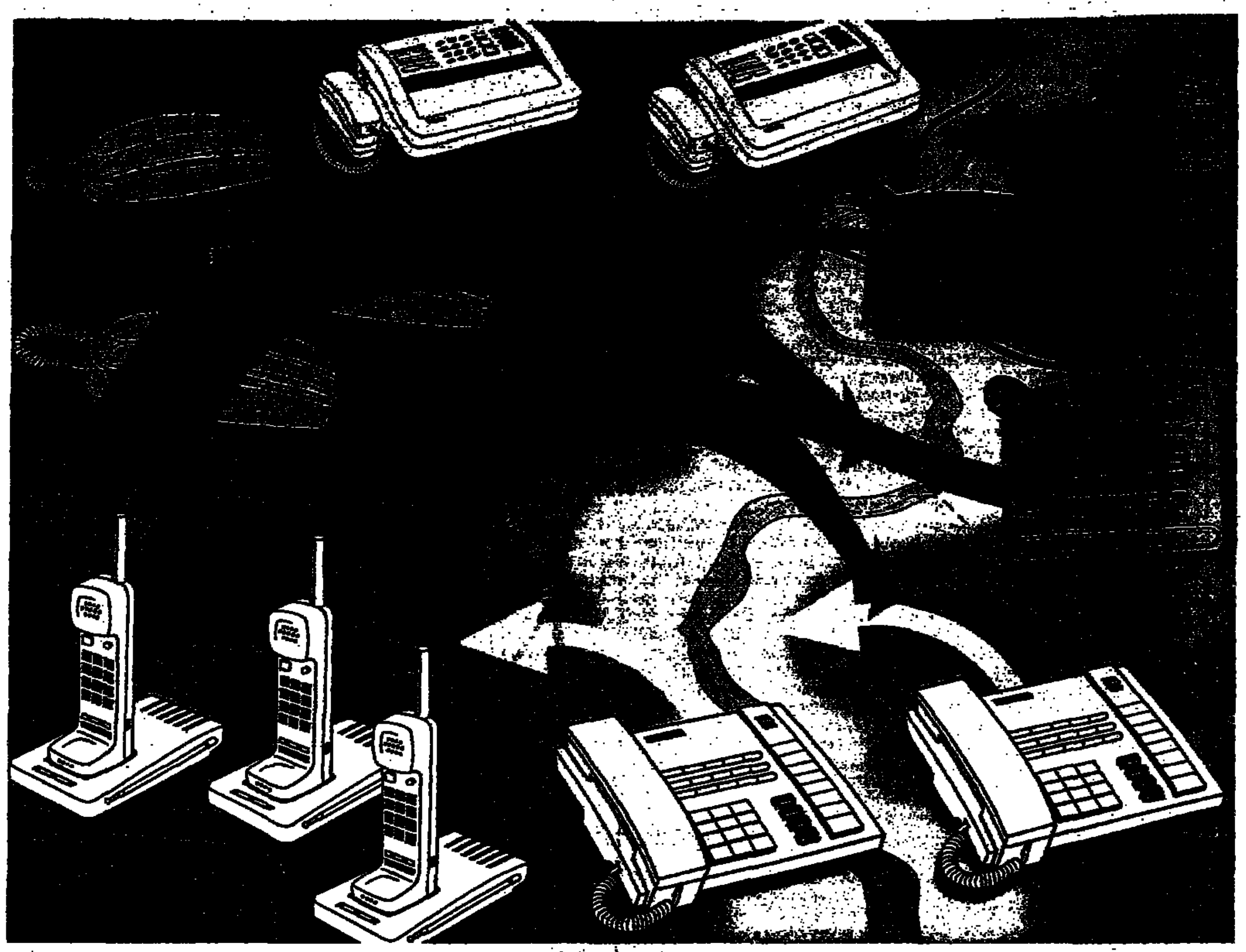
The implication is that more traffic will be carried over IP networks than conventional networks at an early point in the new millennium and that telecoms operators which have not prepared their defences will lose market share to newer, more agile competitors including WorldCom, America Online, PSINet and NetCom.

Finally, there is evidence that telecoms operators are still more enthusiastic about technology than about customer service. Studies by, for example, the London-based consultancy MacTavish-Hepburn show clearly that while the biggest operators are expert at providing basic telecoms services – simple dialtone, in effect – they are poorly equipped to help their customers make strategic use of more products and services.

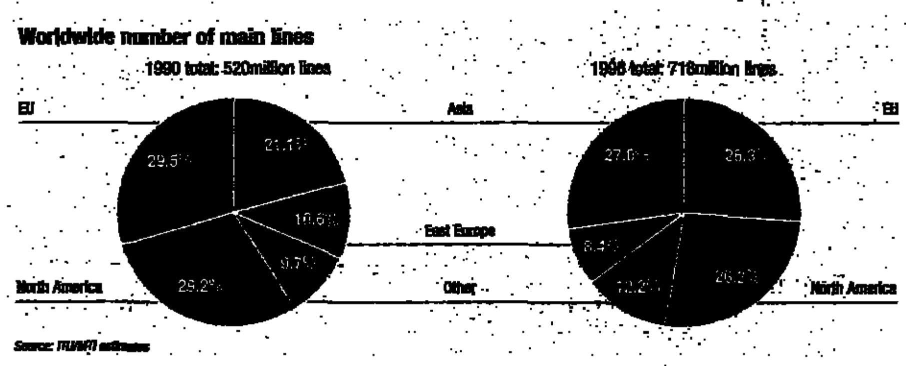
Research from Northern Telecom, the Canada-based manufacturer, suggests that customers are more concerned to make better use of today's technology than to embrace advanced technologies.

This is the chief reason why operators have been creating or buying systems integration companies: AT&T with its Solutions subsidiary, BT with Syntegra and Synchordia, MCI with Systemhouse, Sprint with Paranet.

The three trends together, however, suggest that the evolution of the communications market is moving into a new phase where older strategies may be insufficient to cope with new rivals, most of whom will come from outside the traditional telecoms environment and who will be able to offer technologies and skills traditional operators have yet to master.



Worldwide number of main lines



Emerging Markets

FT writers report on developments in Africa, Asia and Latin America, with individual updates on countries in each region

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Industry issues

The industry's hot topics, including cellular networks coverage, interconnection, convergence, mergers and acquisitions, European liberalisation, software and billing systems

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Pages 10 & 12

VIEWPOINT • By Alan Cane

ITU must sort out accounting rates

The UN agency has been trying to conclude an agreement since 1992 – but now the problem needs to be resolved as a matter of urgency

Accounting rate reform is again a hot topic. It is one of the principal items on the agenda of the Second World Telecommunication Policy Forum now taking place in Geneva under the auspices of the International Telecommunications Union.

Dr Pekka Tarjanne, secretary-general of the ITU, has made it clear he regards reform of the system, through which the world's international operators compensate each other for delivering calls overseas, as a top priority.

Superficially, it seems a simple issue. Accounting rates determine how the revenues from an overseas call are split between the originating and the receiving operator. Typically, the split is 50:50.

Equally typically, the overall charge made for the call is many times the cost to either operator of carrying the call. This is a consequence of history. When telecoms operators were for the most part state-owned monopolies they were free to set whatever charges seemed appropriate.

The ITU and telecoms subscribers have been concerned about overcharging for years. The ITU in particular is concerned that the cost of international calls is a burden on business and social activity and is anxious to see charges move closer to the true cost of calls.

Competition could be expected to play a part here just as it has been one of the key factors in driving down prices in liberalised markets such as the US and the UK.

In Europe, where most telecoms markets have been fully open to competition since January 1, the accounting rate system has been essentially abandoned. International calls prices are expected to fall by 20-25 per cent a year until the turn of the century, with .

But as the ITU points out: "There are often important economic, political and social considerations challenging the notion that international telephone calls should be cost-based."

What complicates matters is geography. If a country makes as many calls as it receives, its telecoms account would be balanced. In practice, richer countries make substantially more outbound calls than poorer, leading to an asymmetry where poorer countries receive more in settlement than they pay out.

The amounts involved are very large. Dr Tarjanne said earlier this year that the system provides the framework for a transfer of resources from the developed northern hemisphere to the developing southern hemisphere of some $10bn a year.

This revenue is used by developing countries to subsidise local calls and fund the extension of networking infrastructure to rural areas.

Essential, many would say, if telecoms services are not to be confined to city dwellers and the wealthy.

But, as the think-tank Panos points out in a recent briefing paper: "The international accounting rate system was never designed to distribute essential capital to countries which needed it most. While many poor countries benefit greatly under the system it is neither equitable nor consistent in how revenues are divided."

Sub-Saharan Africa, the world's poorest region in telecoms terms, received $125m in 1995, while Mexico received $376.

The US, on the other hand, paid out almost $6bn more than it received.

In 1996, the US brought the issue to the boil by setting "benchmark" charges for delivering calls, precipitating an avalanche of protests from foreign governments and carriers. Whether the US was right, or even had the right, to take such unilateral action is open to question.

On one hand, the system is undeniably ripe for reform. On the other, strategies which will affect the budgets of many of the world's poorest nations should not be decided in such cavalier fashion.

In any case, many believe that US operators benefit hugely from the accounting system as a consequence of "call back" and other technical ways of ensuring calls travel outbound from the US rather than in the other direction.

Panos points out that the US paid out $5.7bn in 1996 but US carriers received almost $14bn. Between 1985 and 1996, the US share on international traffic rose from 21 per cent to 28 per cent.

One can have sympathy with the US, however, over the time the ITU has been attempting to deal with the issue without coming to a conclusion.

The ITU has been trying to conclude a multilateral agreement since 1992. While this kind of delay might industry.

For its own credibility, the ITU must solve the accounting rate puzzle and solve it urgently.

See Interconnection report, Page 8

ON THE LINE: Barclay Knapp, chief executive and president of NTL • By Joia Shillingford

A deadline is looming

NTL's chief is reluctant to talk about specific deals – but he has not ruled out further acquisition for the UK's third-biggest cable TV operator

Despite bid speculation surrounding cable TV companies General Cable and Telewest, Barclay Knapp, the chief executive and president of NTL, thinks consolidation in the industry will not happen that fast.

"Eighteen months ago everyone was expecting rapid consolidation," says Mr Knapp. "It didn't happen. Then, when NTL agreed to buy Comcast [in February], they started predicting it again. Will it happen so quickly? I don't think so."

Nevertheless, Mr Knapp is reluctant to say whether UK cable and long-distance company NTL is in talks with General Cable, although Cable & Wireless and Telewest are rumoured to be suitors. "We can't comment on any specifics; we are interested in the development," he says.

NTL has already gone on the record saying that it is in talks with Telewest – the UK's second-largest cable TV operator – in a statement issued last August.

There is something of a deadline looming in that two of Comcast's franchises – Birmingham and London – are part-owned by Telewest. Telewest has the right to buy Birmingham within 40 days and the right to buy London in up to 140 days. (General Cable also owns part of the Birmingham franchise.)

But it is not clear whether Telewest has the money to buy all rights to these franchises. So a suitor acting quickly could get Telewest with London and Birmingham included.

Mr Knapp feels there may be a middle ground in which another company – such as NTL – co-operates with Telewest in these franchise areas. Not that Mr Knapp is ruling out further acquisitions. Far from it.

He says one of the great things about the Comcast deal is that the company currently spends £15m a year on call costs with BT. When the acquisition goes through, this traffic will go over NTL's long-distance network (formerly the Independent Broadcasting Authority's network).

"We are looking for acquisition opportunities to grow, and to grow traffic on our network," says Mr Knapp. "This makes cable TV franchises such as Comcast which do not own a national network very attractive."

In the longer term, Mr Knapp sees the company expanding into Europe but at present it is restricted by some of its financing arrangements to doing business in the UK.

The company is quoted on the US Nasdaq market and Europe's Easdaq. Since it was set up in 1993, it has raised more than £1.5bn in financing and has launched a public offering of dollar and pound denominated junk bonds worth a total of $800m and £200m respectively. This will be used for expanding the network and possible acquisitions.

"When we feel the time is right to enter the continental European market, we will talk to our investors," says Mr Knapp. "At present we are waiting for some of the markets to shake down following liberalisation at the beginning of this year."

NTL's US-based holding company, NTL, already has some overseas interests through a small cellular phone company in Puerto Rico and a partnership with Italian mobile consortium Omnitel. In fact, Mr Knapp's first foray into high-tech companies was setting up Cellular Communications, the first mobile phone company in the US.

He learnt about the cellular phone market by chatting to someone from AT&T at Harvard Business School's recruitment fair. The next day he read an article about how William Ginsberg was leaving the Federal Communications Commission to set up a mobile phone company with a certain George Blumenthal.

"I rang them up," says Mr Knapp "and said 'I'm not doing anything this summer. Can I join you?'" The rest, as they say, is history. Cellular Communications was sold in 1996 to Airtouch. And Mr Knapp somehow found time to complete his MBA, commuting from New York to Harvard in Boston.

Running NTL involves a fair amount of commuting, too. NTL is a UK company with 4,200 employees but Mr Knapp and a staff of 15 are based in New York. "At first I couldn't be based in the UK because the sale of Cellular Communications was going through and my children – then six and eight – had already changed schools four times in four years," says Mr Knapp.

"Then, by the time it was possible, it no longer seemed necessary," adds Mr Knapp. "I feel I gain an international perspective from being based in the US, because although in many ways the UK regulatory regime is better, the US telecoms market has been open to competition longer. This means some developments happen in the US before they happen in the UK."

Mr Knapp has appointed a chief operating officer, Leigh Wood, to run the UK operations. He still spends about half his time here, but says not being involved day-to-day is good for the company because he can concentrate on long-term strategy. "The commuting has been less good for my personal life, though," he says. Because he is based in the US, he has better access to American investors who are willing to put money into technology start-ups. "I would probably have to spend half my time in the US talking to investors even if I was based in the UK," says Mr Knapp.

The idea for setting up the company (called CableTel before it acquired NTL, the engineering arm of the IBA) came from a member of the Cellular Communications' board, who was visiting the UK. George Blumenthal, another CCI board member, is NTL's chairman.

The company is the third-largest UK cable TV operator in terms of its potential number of subscribers – 3.1m – but is quick to point out that it has the highest penetration rates within its franchise areas.

NTL chief Barclay Knapp: 'We are looking for acquisition opportunities to grow, and to grow traffic on our network'

Penetration rates are about 40 per cent – 37.3 for residential telephony and 37.8 for cable TV. This compares with about 25 per cent for rivals CWC and Telewest.

According to Mr Knapp, one of the secrets of the company's success is not forcing 80 per cent of its subscribers to take and pay for dominant cable TV channels whether they want them or not. He says: "Many channels will accept the argument that because we have higher-than-average penetration rates, 50 per cent of our market is worth more than 80 per cent of someone else's in subscriber numbers.

"So some companies will give us their services on the basis that a minimum of 50 per cent of our subscribers takes them. British Sky Broadcasting would not accept this line of argument, so we have dropped Sky News."

However, the independent television commission (ITC) is due to rule on whether bundling channels together – as Sky does – is permissible. "This is fundamental competition law," comments Mr Knapp.

"No other country allows services to be bundled together. That is why Microsoft is in trouble with the US Department of Justice about bundling its internet browser in with Windows 95."

Mr Knapp hopes the ITC rules effectively – in favour of unbundling which would enable all Sky channels to be mixed and matched with other content. "We'd like to view BSkyB as an important supplier," he says.

Whatever happens, digital television should provide NTL with something new to offer customers. He says: "Experience shows the British market does not want 200 channels. But with digital TV we will be able to deliver Internet access through the television and this will entice extra customers on to our service and generate extra revenues." The company will be in a position to offer digital TV in the autumn and Internet access in early 1999.

Mr Knapp believes there are two myths concerning cable TV. One is that it makes sense to view cable TV as a separate industry, independent of what is happening in the rest of the telecommunications business. The other is that cable TV companies have to be big to compete.

NTL, for example, does not see itself as just a cable company. Mr Knapp says that this year it will make about as much money from its national and long-distance network – about $260m – as it does from selling TV and telephony to consumers (also $260m).

It will make the rest of its approximately $700m turnover from other services such as satellite and broadcasting transmission. The company is also an Internet service provider and provides the network infrastructure for the Virgin and Which Internet services.

In February, it won first (for NTL), third (for Virgin), and fourth place (for Which) in the Revolution magazine Internet awards.

"We offer more services than BT," says Mr Knapp who reveals the size of his ambition by indicating that he sees BT as the number one competitor. Strangely for a man who dreams of playing MCI to BT's AT&T, Mr Knapp also thinks a cable TV company can be effective without size on its side.

"We're a third of the size of CWC but if we carry on increasing our penetration rates, we'll have more subscribers. "It's not about size, it's about performance," says Mr Knapp.

As well as providing serious competition for BT, Mr Knapp dreams of owning a 1964 red Corvette convertible like the one his sister's boyfriend had. "I always told myself that when I really made it, I'd buy one," says Mr Knapp. "But I keep putting it off because then it will all be over."

FT telecoms

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WHO'S WHO • By Alan Cane

New entrants queue up

Consultants believe the newconers will find it difficult to penetrate some parts of the market – but in other areas they may set the agenda

There are, according to the UK-based consultancy Analysys*, hundreds of new operators entering or planning to enter the newly liberalised western Europe telecommunications market, including some 140 companies intent on creating their own facilities.

"This is an exciting period for the fixed telephony market as new players jostle for position and attempt to gain market share," it says. "There is a proliferation of small companies targeting niche markets alongside major world players seeking to secure their positions."

It will not be easy for newcomers tackling the public voice call business when barriers were finally swept away on January 1, this year. Malcolm Ross, telecoms specialist with the consultancy A. D. Little, points out in his newsletter *Global Telecom Investor* that liberalisation and privatisation are causing significant disruption to the way the incumbents operate. But, he continues, with respect to the investment potential of the new operators: "We expect consolidation among incumbents to continue but there is no reason to expect newcomers to break in."

He sees the greatest potential for new operators to set the agenda in mobile markets where growth continues to be explosive and in data communications markets dominated by Internet technology.

Analysys defines five categories of newcomer in the voice telephony market – national operators, regional operators, local access operators, metropolitan area network operators and infrastructure providers.

National operators include Cable and Wireless Communications and Energis in the UK, Tele2 in Sweden, and Cegetel and Bouygues Telecom in France. Europe's biggest national market, Germany, will see serious competition to Deutsche Telekom in the form of Mannesmann Arcor, o.tel.o and Viag Interkom. In Italy, *Telecom Italia faces* competition from Albacom, Infostrada and Wind, while Telefónica is already challenged by Retevisión with a third fixed licence still in prospect.

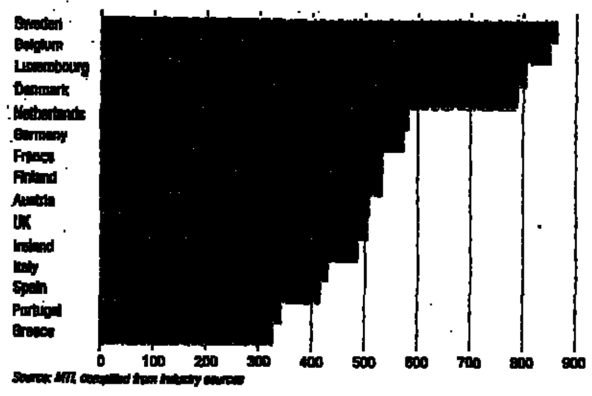
Mannesmann Arcor (see Profile, Page 4) exemplifies a national, facilities-based challenger. It combines the skills of a national telecoms operator with ready-made facilities, using Deutsche Bahn's cable network to provide corporate voice, data and video transmission services. It distributes the services of the global alliance AT&T Unisource in Germany.

Regional operators include the Telenet group in Belgium, Euskaltel in the Basque region of Spain and *Scottish Telecom in the UK.*

Germany, as Analysys points out, has the largest number with about 30 regional licences awarded to groups including Isis Multimedia Netz, NetCologne and DOKOM. These operators may have a diversity of alliances to distribute their services. Scottish Telecom, for example, a subsidiary of ScottishPower, uses the power distribution network of its parent to carry its fibre optic telecoms cables. It has an alliance with Energis to carry its calls in England and Wales.

Euskaltel in Spain formed a strategic and operating alliance with the national challenger Retevisión last year with Euskaltel offering regional service around Bilbao and long-distance calls being channelled via the national operator.

Local access operators include Lyonnaise Cable in France and Veba in Germany. The UK has been virtually unique in allowing *cable television operators* – which have licences to operate only in their franchised areas – to offer telephony in addition to video entertainment. Telephony has now proved to be the more profitable part of their business to the point where one cable operator, General Cable, is refusing to offer cable television alone.



In Belgium, the Netherlands and Switzerland, where cable penetration exceeds 80 per cent, it is expected that the cable operators will move enthusiastically into telephone services.

Metropolitan area network operators include some of the most interesting of the new challengers including Colt, formerly City of London Communications and WorldCom. These two operators are pitting themselves against the incumbents in most of Europe's liberalising markets.

Their mode of operation is to build fibre optic rings using advanced transmission technologies around urban centres giving them direct access to, in particular, customers in the financial services business. They are able to offer these customers high quality, highly reliable services at a heavy discount to the incumbent.

WorldCom has been leveraging its high Stock Market rating to make acquisitions, including MCI of the US, at a great rate. Colt's share price has attained stratospheric proportions on the presumption it will be snapped up by an overseas, long-distance group.

Infrastructure providers include Europe's railway and electricity companies. The pan-European group Hermes Europe Railtel is one example and the UK company Energis, a subsidiary of the National Grid, another.

Hermes is unique in that from the outset it planned to be a carriers' carrier, providing trans-border services to Europe's telephone companies. It is owned by the US group GTS and by Hit Rail, a consortium of 11 European rail companies. It is building a 17,000km fibre optic network connecting most of western and central Europe's largest cities.

A number of newcomers cross a number of categories – Esprit Telecom, based in the UK, for example, plans to become the largest of Europe's independent service provider by 2005 with network reaching 19 cities currently.

According to the consultancy Market Tracking International**, the cumulative effect of this new competition will be a significant fall in market share for the incumbents. Deutsche Telekom could see its share fall to about 75 per cent, while in the UK where competition has been rampant for several years, British Telecommunications could see a fall to about 62 per cent.

* *New Network Operators in Western Europe, Analysys Publications, £995, Suite 2, First Floor, Quayside, Cambridge, CB5 8AB, UK.*

** *Telecoms Liberalisation in Europe – 1998, Market Tracking International/Communications International, £899, Emap Readerlink, Audit House, 260 Field End Road, Ruislip, Middlesex, HA4 9LT.*

REGULATION • By Emma Tucker in Brussels

Critical laws are in place

A recent survey concluded that most states were allowing competition to flourish and that regulators were correctly enforcing the law


European Commission HQ in Brussels: the commission intends to start legal proceedings against several EU countries — Frank Spooner

In a recent letter to the *Economist*, Clive Litt of Telecom New Zealand argued that basic competition rules, rather than specific telecoms legislation, had created the best environment for the development of a vigorous and competitive telecoms sector in New Zealand.

Prices, he argued, had fallen faster than in Australia, which took a more regulated approach. Moreover, 10 of the Fortune 500's 20 biggest telecoms companies were now competing in New Zealand, either directly or as part of various consortia.

His reasoning is shared neither by the European Commission – responsible for drawing up sector-specific legislation to oversee telecoms liberalisation in the European Union – nor by many of the consultants working in the European field.

"If the end objective is to produce competitive markets then you need that sector-specific legislation," says Mark Attan of Deloitte Consulting. "It is premature to say it is not needed, particularly for continental Europe."

The main argument in favour of sector-specific legislation was to create a window during which time competitors could establish themselves against the might of the established telecoms companies.

The assumption was that the dominant operators would not open their networks unless forced to do so and therefore the legislation placed specific obligations upon them in critical areas such as interconnection fees and numbering.

The Commission also adopted legislation aimed at maintaining certain public interest commitments, such as the provision of a universal service, the burden of which fell on incumbent operators.

"All this made us rather unpopular with the dominant operators," comments a Commission official. "But experience showed us that they could not be trusted."

Most of the critical pieces of this legislation intended to bring about full liberalisation are now in place. A recent survey by the Commission concluded that most states were allowing competition to flourish and that regulators were correctly enforcing the law.

However, application of the law was still patchy in a number of EU countries, against whom the Commission intends to start legal proceedings. Further, the last restrictions to full competition where only lifted on January 1 this year, so a true picture of how well liberalisation is functioning has yet to emerge.

"It will be quite a while before established telecoms companies in the member states are over-regulated as some have only just started to be regulated," says Linda Porter of BT. "We are waiting to see exactly how effective these regulations are."

But Etno, the European Public Telecommunications Network Operators is pushing for an early lifting of the sector-specific legislation.

"There is a need to keep regulation to a minimum and to make sure it disappears as quickly as possible," says Neil Gibbs of Etno.

His organisation believes that in applying obligations to "dominant operators" the Commission created a situation of managed competition where different operators were assigned different roles in the market. This was the wrong way to set about creating the best competitive environment.

Rather than focusing on individual operators, the legislation should have focused on the bottlenecks in the market.

"At the risk of oversimplifying, in Etno's view it should make no difference whether an operator has a market share of 99 per cent or 1 per cent," said Etno in a position paper. "The operator with 99 per cent market share that attempts to set unreasonably high prices for the long-distance part of its network will soon find itself by-passed. On the other hand, the operator with 1 per cent market share that controls the final access to a handful of customers will be in a position to set any interconnection conditions it chooses."

It therefore believes that the sector-specific legislation should be phased out as soon as possible, and in the meantime should be based on competition law principles rather than on definitions that it says distort the market.

Not all established operators agree with the Etno line. British Telecom believes sector-specific legislation, limiting the power of the incumbents, was necessary to allow competition to get off the ground.

"If regulation was left up to competition law there would be far too much room for interpretation," says Ms Porter.

"Our view is that the EU has got it about right, but what really matters is how it is interpreted and applied at a member state level."

Robin Bosworth, a partner at Schema, an independent consultancy, agrees: "There are areas where individual countries have not really enforced legislation and that has stopped newcomers from coming onto the market. The Commission needs to be able to impose greater sanctions," he says.

Among those who support legislation to limit the power of incumbents, there are however, some doubts.

Mr Attan believes certain forms of telecoms regulation could stifle, for example, development of the local loop where investment is expensive and risky.

"If the investing company is forced to make available to competitors the technology they are using at a rate of return that does not compensate for the risk they are taking, they will tend to limit their investments," he says.

For the Commission, the prevailing regulations are not set in stone. Next year it will conduct a widespread review of the system. It is unlikely, at such an early stage, to consider dismantling its carefully constructed framework. But as one Commission official says: "The normal evolution will be for less and less regulation."

NEW ENTRANTS • By Priscilla Awde

The focus is on loyalty

The newcomers are using new technologies and innovative services to attract customers. But some PTTs are replying with aggressive strategies

Strategies for tackling incumbents in European telecoms markets may start with slashing prices, but new operators cannot afford to start price wars with the telco giants. The new entrants must charge up to 20 per cent less than incumbents and consistently offer cuts of 10 per cent to maintain share.

As a short-term strategy to attract customers, price discounting works. But retaining customers is a different matter – that depends on building up loyalty. Fickle corporations pursue the best service at the best price.

Inertia, a big factor in residential telephony, is overcome by aggressive marketing supported by solid performance and low tariffs. The best long-term competitive strategy is to combine superior service quality with creative and flexible product bundling at bargain prices.

The ultimate weapon in the battle to compete is state-of-the-art technology. Installing these technologies, which are more cost effective, flexible and easier to manage than those used by PTTs, translates into competitive advantage.

"Every entrant starts off with better equipment at lower prices," explains Ian Vance, chief engineer, Nortel. "New technologies are doubling capacity or enabling extra services over existing equipment.

"PTTs have complex, cumbersome networks. Competitive carriers cut a swath through that, ending up with a tenth of the network elements which are easier to manage, more reliable and promote fast lead times."

New telcos succeed in niche markets by introducing and bundling new products quickly – before incumbents have time to react. According to a report by consultancy Analysys, about 140 new network operators throughout western Europe have recently entered, or are about to enter, the fixed telecoms market.

"The most successful are very targeted niche suppliers deploying new network architectures," says Maureen Donnelly, principal consultant at Analysys. "Among these, wireless combines fast roll-out with cost advantages albeit limited by spectrum allocation problems. Merging fixed-mobile systems is a growth market offering many advantages."

Fixed-mobile convergence is the chosen architecture for Scandinavian newcomer Net System which launches in four Nordic countries this summer, rolling out in Europe before 2000. Its new system is based on switches and a proprietary intelligent network (IN) platform.

"We will be totally flexible and have interfaces specified for any existing voice or data network. Our targeted SME [small and medium private businesses] customers want one supplier and one bill for mobile and fixed traffic," says Trygve Tamburstuen, Net System's chairman and chief executive officer.

"Using intelligent platforms we integrate services cost-effectively and flexibly, giving customers what they want and when. Incumbents are fragmented and have divided services; we plan to get in fast offering value through better efficiency, at competitive prices with a full product portfolio."

Richard Soussa, director of global business development at Telstra, the Australian telecommunications group, is convinced there is too much European infrastructure. He says: "Empty pipes need to be filled. Others can build networks, we use interconnect and IN platforms to design telecoms services which enhance customers' operational needs.

"We investigate what corporations want to do, what their applications are and how telecoms fit in. Success is not about pricing but offering valued solutions, access and consistency."

Telstra targets markets it knows – European-based multinationals active in Asia-Pacific.

Esprit, building an end-to-end Pan-European fibre-based network, started life as a reseller in The Netherlands. Michael Potter, Esprit president, says: "Europe, our focus market, represents a significant challenge – with over 375 million consumers most of whom have never experienced competitive telecoms services."

"Owning end-to-end networks is a competitive strategy, allowing us to by-pass incumbent cartels which control prices. New carriers introduce more realistic price structures. Technology and flexible legacy systems are important in targeting vertical markets. Offering excellent service, treating customers and employees well are other competitive strategies.

"Esprit is more like a Silicon Valley company than a militaristic incumbent – we motivate and inspire employees giving them share options to help success."

Colt and MFS-Worldcom, laying fibre in Europe's financial centres, have cherry-picked, competing on innovation, service quality and price.

"Interconnect is a vital issue for new operators," says John Doherty, director of investor relations at Colt. "Regulations are less of a problem than last year. Rates are dropping and it is easier to negotiate as governments realise modern economies need open, liberalised telecoms. Competition expands the whole market, stimulating innovation. Success depends on getting skilled people in the right place to do the job."

Some consultants expect liberalisation will happen faster in continental Europe than in Britain as operators follow existing models.

UK telcos Energis and Ionica are using different strategies and networks to compete against an aggressive and innovative incumbent.

Jo Upward, head of regulatory affairs at Energis, advises entrants to: "Develop close relationships with regulators to push forward issues like interconnect, number portability and universal services. Network elements should be unbundled so entrants can gain revenue before building networks. Joint ventures, partnerships and interconnect are ways of entering markets."

Ionica is building a wireless network to compete with BT. Ian Morris, head of external affairs at Ionica, says: "Newcomers should challenge the conventional view of the phone by introducing new features. Telcos must quickly establish brand awareness, coupling that with what the brand stands for: more features at significantly less cost."

Slow to start but difficult to stop once they get going, the giants are waking up. Unwilling to relinquish market share, some PTTs are adopting aggressive strategies in their domestic markets and in those they are entering through mergers and acquisitions.

Hindering the regulators' best efforts, others are using interconnect, universal service and number portability to frustrate competitors. Innovative PTTs are rebalancing tariffs and upgrading service quality to become fierce competitors.

PROFILE Mannesmann Arcor

Some powerful advantages

Mannesmann Arcor, the fledgling German telecoms operator with ambitions to become one of Deutsche Telekom's biggest rivals, has been counting every minute since the country's market was fully liberalised on January 1.

In full operation within hours of the turn of the year, Mannesmann Arcor reckons it was carrying about 500,000 private conversations each working day by the end of January.

"At the moment, for the private client sector, we're running one or two months ahead of plan," says Mr Harald Stöber, Mannesmann Arcor chairman, at the company's low-key headquarters on a business estate outside Frankfurt. He said the punctual start, "has at least made us better known. We are three months ahead of others in positioning ourselves in the market."

The company has some powerful advantages on its side. Its sister company, Mannesmann Mobilfunk – in which the Düsseldorf-based Mannesmann industrial conglomerate also has a big stake – has pipped Deutsche Telekom to become Germany's biggest digital mobile telephone operator. That not only offers experience in challenging an incumbent. It also offers scope for offering integrated fixed and mobile services.

Moreover, the Mannesmann-led consortium which owns 49.8 per cent of Mannesmann Arcor also includes AT&T and AirTouch of the US which brings important international experience. The remaining 50.2 per cent belongs to Deutsche Bahn, the national railway operator, which has run telecoms cable links along its railway network.

Mannesmann Arcor, which already employs more than 7,000 and generated a turnover of more than DM1bn last year from business clients, expects to invest DM4bn up to 2001. The aim is to offer wide-ranging services: in March, Mannesmann Arcor is expected to unveil internet services for its business customers; private client access will follow.

Will it be enough? Mannesmann Arcor has

Stöber says Germany's low interconnection prices for links into the Deutsche Telekom network 'show that the regulator is taking his work very seriously'

attracted sneers from rivals for offering from the start the option of "call by call" telephone use without pre-registration. In other words, any customer can access its network simply by dialling a normal long-distance or international telephone number preceded by an additional five-digit code.

Competitors argue that by not requiring registration Mannesmann Arcor has no idea who its customers are. But Mr Stöber says the business is nevertheless profitable. "I will take every minute I can." And, he adds: "We have always said that the first quarter [year] would be about either side getting used to each other."

Pre-selection – whereby a customer contracts to Mannesmann Arcor and does not need to add an additional code to telephone – will be a growth area that kicks in properly at a later stage.

"We have always said it would be a market that grows slowly in the first quarter. Customers have to get used to competition.

"They want to know what they are buying," says Mr Stöber. Such a cautious attitude is probably wise in a market such as Germany's. Like the other would-be challengers to Deutsche Telekom's hegemony, Mannesmann Arcor faces not inconsiderable hurdles.

First, the regulatory environment is still not fully clarified. The new telecoms regulator only came into operation on January 1 and became embroiled immediately in a row with Deutsche Telekom over the charges it wanted to levy on customers who wished to contract to a new supplier. Mannesmann Arcor's prospects could hinge crucially on decisions such as rules on the type of access it is given to Deutsche Telekom's networks and which side should pay the cost when a customer opts for pre-selection.

However, Mr Stöber admits Germany's low interconnection prices, set last year, for links into the Deutsche Telekom network "show that the regulator is taking his work very seriously."

Second has been the strongly-defensive attitude of Deutsche Telekom in the early months of liberalisation. The former state monopoly won a public relations victory of sorts by creating widespread confusion since the beginning of the year over the cost of switching to a rival telecoms carrier.

A mass of legal actions across the telecoms sector involving Deutsche Telekom and its competitors has subsequently clouded the battle ground still further. It is determined to save market share.

A third reason why the success of Deutsche Telekom's rivals is unlikely to become clear for some time is the traditional caution of the German consumer. Past experience in sectors such as banking and insurance suggest that new services based merely on undercutting the prices of existing suppliers do not always work.

Mannesmann Arcor put as much effort into ensuring the quality of its service as in ensuring that the prices it offered would represent significant savings: its marketing strategy is based on stressing quality, price and service equally.

Mannesmann Arcor said last year that it would undercut Deutsche Telekom by as much as 50 per cent – although Deutsche Telekom subsequently retaliated by announcing price cuts of its own. It is also likely to benefit from Deutsche Telekom's reputation for bad customer service and high prices.

"Dissatisfaction with Deutsche Telekom is high. That does not mean people will change automatically. But the necessity to build up competition is, I believe, uncontroversial," says Mr Stöber.

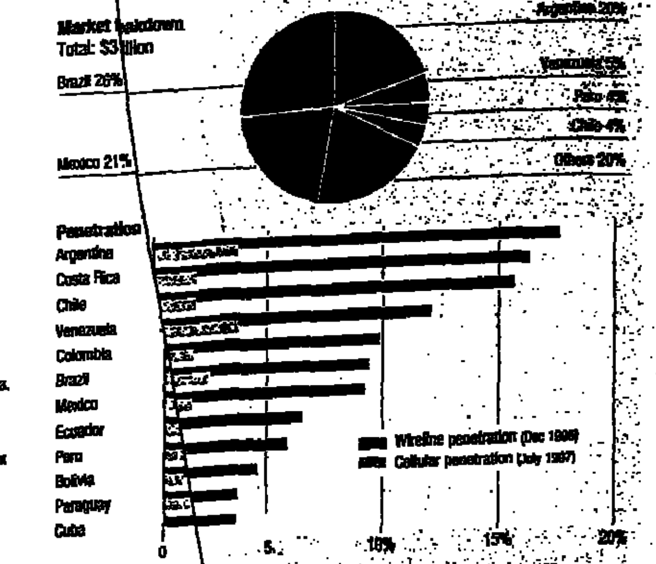
Mannesmann Arcor is predicting first profits in 2001. Mr Stöber has some experience of what he is doing: he was previously responsible for marketing at Mannesmann Mobilfunk whose D2 digital mobile network had 3.5m customers at the end of December.

"What was important was to have the business ready. You must be able to offer a complete service and be able to answer all the questions about yourselves straight away."

Ralph Atkins in Bonn

Telecommunications key data: Latin America

Produced by ABN AMRO in association with the Financial Times



Key players

	Incumbent Telco	Regulator
Argentina	Telefonica de Argentina, Telecom Argentina	Comision Nacional de Comunicaciones
Brazil	Telebras	Anatel
Chile	Entel	Subsecretariat of Telecommunications
Mexico	Telmex	The Secretariat of Communications and Transportation through Cofetel
Peru	Telefonica del Peru	Osiptel
Venezuela	Compania Anonima Nacional Telefonos de Venezuela (CANTV)	Comision Nacional de Telecomunicaciones

Sources: ABN AMRO; ITU; FT Mobile Communications Newsletter; OECD

New entrants

	Wireline long distance/int'l operators	Cellular operators
Argentina	Telintar	Movicom, CTI, Telecom Personal, Miniphone, Telintar, Unifon
Brazil	Embratel	BSP, Avantel, Americel, Vicunha Telecom, BSE
Chile	CTC Mundo, Chilesat, VTI	Bell South Cellular, Startel, Telecom Celular
Mexico	Alestra, Avantel	Telcel, Iusacell, Portatel, Movitel, Celular Mexicana, Norcel, Cedetel
Peru	None	Tele 2000
Venezuela	None	Telcel, Movilnet

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LATIN AMERICAN OVERVIEW • By Stephen Fidler

Markets transformed by series of sell-offs

Apart from the focus on developments in Brazil, much of the excitement in Latin America is in the mobile telephone business

Latin America's telephone markets have changed rapidly over the past 10 years, with operators across the region now almost entirely in private hands. In two countries where the state remains in control – Brazil and Ecuador – governments are laying plans for privatisation this year.

Unsurprisingly, given its size, it is Brazil that is taking most attention. "The Brazilian privatisation will eclipse what is happening in the rest of Latin America," says one London-based corporate financier.

The size of the sale has substantial consequences for the financial markets and for the companies involved. Corporate financiers are currently working overtime on how to finance bids, but the financial outlay for the successful companies will not stop there. The privatisation will be followed by requirements for big investment to expand the network.

The Brazilian authorities have learned from the experience of privatisation in neighbouring countries and farther afield. In retrospect, many governments tolerated monopoly for too long, which made for high prices and unpopularity with consumers. Moreover, the regulatory regimes that were in place were weak.

In Brazil's case, full competition will be introduced fairly rapidly after privatisation. Observers also praise the quality of the regulatory system that has been put in place. That should help add value to the privatisations and offers a contrast not only with neighbouring countries but also with previous privatisations in Brazil – where important electricity assets were sold without a proper regulatory structure in place, increasing the risk premium and reducing sale values.

In Argentina, the two existing fixed-line telephone monopolies covering the north and the south of the country will finish at the end of 2000 – but there are some difficulties to overcome before that happens. The rebalancing of call charges between international calls and subsidised local services has yet to be achieved. Meanwhile, the expected end of monopoly has set up a competitive battle in the cable television market, which has one of the highest household penetrations in the world.

Chile's market seems to prove that a highly liberalised market can generate lower call charges in a short time – but is no guarantee for long-term competition. CTC, the market leader, is perceived to be tightening its stranglehold over its main competitors, Entel Chile and Telex Chile.

In contrast to Argentina, Peru's pricing regime is ready for the end of monopoly in 1999, with the prices between local and international calls rebalanced. However, the question in Peru – given its size and poor income distribution – is whether other companies will consider it worthwhile entering the market when the monopoly ceases.

In Venezuela, the difficulties that Cantv, the former state monopoly now privatised and operated by GTE, has had are well known. It has suffered problems with exchange control, recession, and repeated conflicts with its regulator. GTE says it and its partners "have created a great deal of value" in CANTV. However, while analysts say the basic financial position of the company is strong, the volatility of an economy whose fortunes are linked so closely to oil prices is a deterrent to investors.

Colombia's telephone system has been run at a municipal level with a single company handling long-distance services. The long-distance market is now being opened up to any company with 200,000 local lines in co-operation with any international operator with more than 400,000 minutes of traffic in 1996, which can also put up $150m.

Two new operators seem likely to enter, one clustered around ETB, the Bogotá operator, and the other around the Santo Domingo and Sarmiento groups, both powerful operators in Colombia's private sector.

In Ecuador, the government is going ahead in April with a second attempt to privatise its monopoly operator. Curiously, say analysts, this seems to be going ahead with an identical minimum price as in a previous unsuccessful attempt to auction it.

But Brazil apart, much of the excitement in Latin America is in the mobile telephone business. According to researchers at Robert Fleming cellular telephony already accounts for 17 per cent of revenues of the main telecoms companies in Latin America and for 60 per cent of their total sales growth.

Flemings says the main ingredient behind such growth is that the caller is charged the entire cost of a call, inducing people to leave their phones switched on and tell others of their numbers. "Calling party pays" (CPP) operates in all the main markets in Latin America except for Mexico and Chile, where revenue per subscriber is the lowest in the region. In Chile, CTC, the dominant company, is introducing CPP in an attempt to boost its competitive advantage.

But other factors have encouraged mobile phone use in Latin America, such as roaming agreements and socio-demographic factors, including a status conscious society where cellular phones are an easily acquired status symbol.

Moreover, the attitude of the regulator is critical to motivating investment: if competition is opened too rapidly, revenue per subscriber falls too fast and investment is not encouraged, Flemings argues.

BRAZIL • By Jonathan Wheatley in São Paulo

Privatisation under way

For the local and international consortia lining up to buy the networks, it offers one of the fastest potential growth rates in the world

The long-awaited privatisation of Brazilian telecoms is finally under way. Last month, the government appointed Morgan Stanley and Salomon Brothers to advise on the sale of the Telebrás system and reaffirmed its intention to carry it out by June 30.

This is an enormous privatisation, reflected in the unusually low fee requested by the advisers of just 0.07 per cent of the sale value. Analysts reckon each of the four fixed telephone operating companies – three regional and one long-distance and international – into which the existing 28 operators will be rebundled, will fetch at least $5bn. With eight cellular operators to be sold separately, the total value of the sale is likely to reach $30bn.

Most observers say the government is unlikely to meet its June 30 deadline. Brazil's privatisation programme has been beset by bureaucratic delays and, recently, by a flurry of legal objections from political opponents. Even allowing for delays, however, it seems likely the sale will go ahead before the end of the year.

For the frustrated subscribers – and would-be subscribers – to Brazil's creaking public networks, privatisation should bring cheaper and better services. And for the local and international consortia lining up to buy the networks, it offers one of the fastest potential growth rates in the world.

The state system was a model of public enterprise for a few years after it was established in the mid-1960s. But it has failed to keep pace with demand.

The system has a backlog of 13m lines awaiting installation. Telesp, the company serving the state of São Paulo, accounts for 7.6m of them, yet it treats its customers with the arrogance and disdain of the bureaucratic monopoly it is. Maintenance can cause cuts in service without warning or apology; it can take a month to transfer a line to a new address.

High-volume subscribers to Telerj, in Rio de Janeiro, receive letters telling them to reduce their use of the system or face disconnection. Instead of hearing an engaged tone, callers often find themselves joining calls already in progress; the engaged tone itself more often indicates an overloaded exchange.

In some parts of the country, operators are close to meeting the demand for services. But it is common to wait more than two years for connection – after advance payment of a connection charge recently slashed from $1,100 to $45 in preparation for privatisation.

The government hopes all this will change soon. It recently published draft proposals for performance targets to be imposed on the new private operators. According to the draft, the number of lines per 100 head of population is to increase from about 10 todayone of the lowest rates in Latin Americato between 23 and 24 by 2003.

By the end of next year alone, the government expects private operators to install almost 10m new fixed lines, bringing the total to 26m. It says installation must be carried out within four weeks of being requested by 2002 and within one week by 2005.

These and other targets will be set by a Concessions Plan due to be published this month. Analysts say the targets are overly optimistic, but the government hopes competition from rival operators will encourage buyers of the existing networks to act quickly.

Exactly how competition will work remains unclear; the communications ministry has spoken of limited fixed-line competition beginning immediately after privatisation and full competition by 2002. These and other questions should be answered by the Concessions Plan.

Competition will begin much sooner in cellular telephony. Last year, the communications ministry accepted bids for 10 regional concessions to operate so-called B-band services, to compete with existing A-band services offered by the Telebrás system.

The winner of the first concession to be announced was BCP Telecomunicações, a consortium formed by BellSouth of the US with local bank Safra and media group O Estado de São Paulo, which will begin offering services in the city of São Paulo next month. It paid $2.45bn for the concession, an indication of the markets appeal.

The announcement of other winners has been delayed by legal battles over the disqualification of bidders for the concession covering the rest of São Paulo state.

The prospect of competition has already shaken up the cellular market in São Paulo. Cellular lines, which changed hands on the black market for more than $2,500 in 1995, can now be had for less than $1,000. Few should be tempted: BCP has invited requests for an initial 150,000 lines with a connection fee of R$236 ($210). It says a further 350,000 lines will be offered by August.

Telesp, which has about 700,000 cellular lines in operation, has dropped its connection fee from R$346 to R$280 in response. It plans to offer another 150,000 by the end of June, from a waiting list that reached 2.5m last year.

However, consumers are unlikely to benefit from an all-out price war: the government has said state operators may not charge less for services than their private sector rivals.

AFRICAN OVERVIEW • By Michael Holman

Revolution finally gets under way

Rascom is playing a leading role in the transformation of the sector

Africa's long overdue telecommunications revolution is under way, as privatisation and deregulation opens up the sector to competition, foreign investment, and new technology.

Governments across the continent from Ethiopia to South Africa, from Uganda to Senegal, are ending state monopolies which charged high rates for an increasingly poor service, and allowed the communications gap between Africa and the rest of the world to widen.

The figures speak for themselves. Africa has one eighth of the world's population, yet only 2 per cent of its telephone lines. In 1994 there were 11.6m main fixed telephone lines in Africa, 5.3m in north Africa, 3.8m in South Africa and just 2.5m in the rest of Africa. It amounts to one line for every 235 people, compared to a line for every two or three people in the industrialised countries.

As Jay Naidoo, South Africa's minister of telecoms, recently pointed out, Tokyo has more phones than Africa.

The continent is paying the price, say industry analysts, for low investment. European companies were ploughing as much as half their earnings back into infrastructure in the 1970s, while during the period 1990-94 the world average of investment as a percentage of revenue was 46 per cent. But during the same period, only three big African markets – Botswana, Cameroon and Kenya – reached that level, and the average for the whole region in 1994 was 28 per cent.

By the beginning of the next century, however, the transformation of the sector should be well under way, with the Abidjan-based Regional African Satellite Communications Organisation (Rascom), formed in 1992 by 42 African countries, playing a leading role.

It is presiding over the launch of a continent-wide satellite system, and last month a dozen international companies tendered for what is described as the biggest pan-Africa investment. The $1.2bn satellite project is to be developed on a build, operate and transfer basis, with Rascom a member of the consortium.

"The company will be responsible for designing, financing manufacturing, launching and operating the dedicated satellite system for Africa with Rascom, and transferring ownership to Rascom at the end of a concessional period to be agreed on," says a spokesman.

It will include installation of 500,000 fixed solar-powered telephone stations with international access across the continent over a seven-year period. The aim is to slash the average distance to the nearest phone in Africa from 50km to 5km.

Rascom expects the satellite to be launched in the first quarter of 2001.

Meanwhile the Gibraltar-based African Continental Telecommunications Ltd (Aftel) and Telesat Canada have signed contracts under which the Canadian satellite communications company will help build Aftel's new $835m pan-African satellite network. The first step in the two-phase operation involves leasing and repositioning of a satellite to serve southern Africa. The second phase will see the launching of a new satellite covering the whole continent, with target date of 2001.

The second satellite will allow customers to make and receive local and international telephone calls with a lightweight handset, and will be the first service of its kind to cover the entire continent, say Aftel officials.

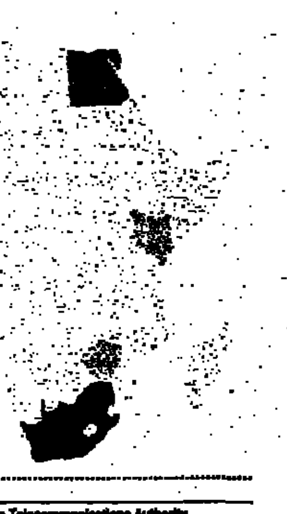
There are also several initiatives to link Africa with the rest of the world through fibre optic undersea cables.

AT&T intends to develope a fibre ring around the continent called Africa One, while Siemens, the German equipment manufacturer, has proposed a 6,000km series of fibre optic links along the western coast of Africa.

Telecommunications key data: Africa
Produced by ABN AMRO in association with the Financial Times

Wireline penetration

South Africa	9.45%	Ghana	0.35%
Egypt	4.63%	Mozambique	0.34%
Morocco	4.33%	Tanzania	0.30%
Algeria	4.21%	Sudan	0.27%
Zimbabwe	1.40%	Ethiopia	0.25%
Kenya	0.90%	Madagascar	0.24%
Cote d'Ivoire	0.81%	Uganda	0.23%
Nigeria	0.36%	Others	

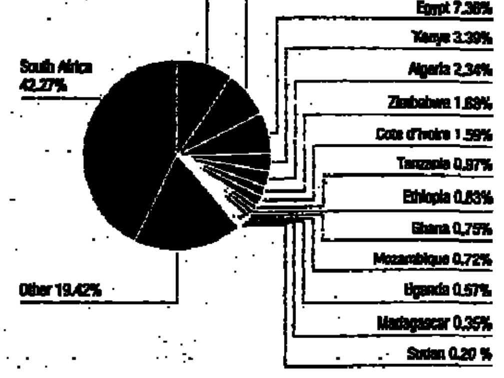


Key players

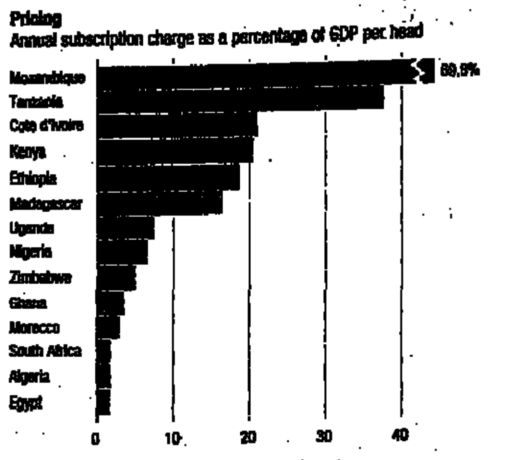
	Incumbent Telco	Regulator
South Africa	Telkom SA	South African Telecommunications Authority
Algeria	Ministere des Postes et des Telecommunications	Ministere des Postes et des Telecommunications
Cote d'Ivoire	Societe Cote d'Ivoire-Telecom	Ministere des Postes et des Telecommunications
Egypt	National Telecommunications Organisation	National Telecommunications Organisation
Ethiopia	Ethiopian Telecommunications Authority	Ethiopian Telecommunications Authority
Ghana	Post and Telecommunications Corporation	Ministry of Transport and Communications
Kenya	Kenya Post and Telecommunications Corporation	Ministry of Transport and Communications
Madagascar	Societe des Telecommunications de Madagascar	Ministere des Postes et des Telecommunications
Morocco	Office National des Postes et des Telecommunications	Ministere des Postes et des Telecommunications
Mozambique	Telecomunicacoes de Mocambique	Ministerio dos Transportes E Comunicacoes
Nigeria	Nigerian Telecommunications Plc	Ministry of Communications
Uganda	Uganda Posts and Telecommunications Corporation	Ministry of Works, Transport and Communications
Sudan	Sudan Telecom Company Ltd	Sudan Telecommunications Public Corporation
Tanzania	Tanzania Telecommunications Company Ltd	Tanzania Posts and Telecommunications
Zimbabwe	Posts and Telecommunications Corporation	Ministry of Information Posts and Telecommunications

Sources: ABN AMRO; ITU; OECD; Baskerville

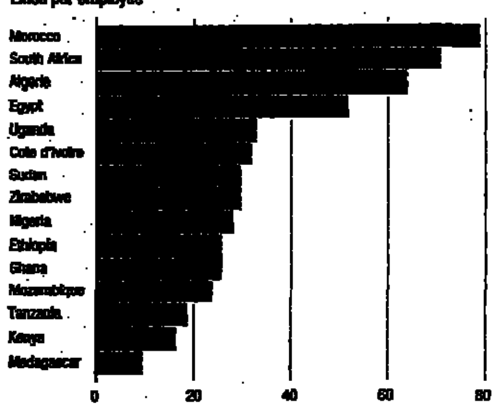
Market breakdown
Total: $8.6billion



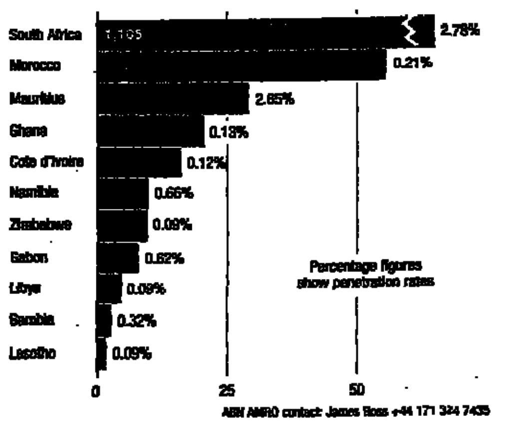
Pricing
Annual subscription charge as a percentage of GDP per head



Efficiency
Lines per employee



Cellular subscribers
Thousands



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PERU • By Sally Bowen in Lima

Cellphone auction postponed

Cellphone sales have taken off despite the auction delay. But much of Peru is still incommunicado

The suspense continues. For the third time, a 30-year concession for the cellphone band for Peru's provinces, scheduled to be auctioned on March 6, suffered an eleventh-hour postponement, apparently at the request of two of the three pre-qualifying operators.

Although BellSouth of the US and Perus's Tele 2000 had pre-qualified separately to bid for the provincial "B" band, they are already effectively one company.

The third contender is GTE of the US. Telefonica del Peru already occupies the "B" band for Lima, the capital, and its neighbouring port of Callao and is prohibited from bidding in the forthcoming auction, now rescheduled for May.

Until the middle of next year, Telefonica del Peru (controlled by Telefonica Internacional of Spain, Tisa, which took over Peru's former state-owned telecoms monopoly with a surprising bid of $2bn in February 1994) has exclusivity over fixed-line and long-distance telephony, national and international.

Competition so far has centred on cellular telephony, cable television and provision of public callboxes.

Cellphones in particular have taken off. At the time of privatisation in 1994, Peru had the lowest level of telephone provision of any country in South America, including Bolivia (fewer than three lines per 100 inhabitants). Vast distances and difficult topography mean fixed-line telephony is often prohibitively costly to install.

Even in Lima and Callao, existing fixed-line infrastructure was far from adequate. In the past four years, many suburbs, shanty towns and outlying residential districts have leap-frogged from no phones to cellular telephony without considering the fixed-line option.

Telefonica has expanded fast in cellphones: its 20,000 clients in 1994 had swelled to 320,000 by the end of 1997.

Tele 2000-BellSouth currently claims about 200,000 subscribers and will invest $100m this year (on top of $150m in 1997) to expand its cellphone infrastructure and make inroads in the growing business market. It has already laid some 200km of fibre optic cable, aimed at servicing internal communications systems for companies with many branches, such as banks.

Several other operators are also establishing a toehold in this potentially lucrative area, including Resetel and ComSat, both of the US.

At present, Peruvian law allows them only local carrier licences, but both are building fibre optic networks in the capital to compete with Telefonica and Tele 2000. Resetel expects to activate its 250km system for Lima this month, but until June 1999, it will be allowed to offer clients only private, closed-circuit links.

Subsidiaries of the Globalstar and Iridium low orbit satellite systems are also setting up in Peru.

Some telecoms experts dismiss them as too costly, but satellite services could prove "a very interesting alternative for Peru's highlands and jungle regions," says Percy Fernandez, telecoms vice-minister. "It may be a niche market, but in remote areas the concept of cheap and expensive loses relevance."

Although Telefonica expansion has raised coverage to about 7.5 lines per 100 inhabitants, and has set a target of 9 lines per 100 by the year 2000, there is still a long way to go. Antonio Paucar, the new minister of transport and communications who presided over Lima's state-controlled telephone company prior to privatisation, says that promoting rural telephony is one of his main objectives. "Much of Peru is still incommunicado: there are villages with thousands of inhabitants and not one telephone."

A government-appointed committee has been charged with working out the post-liberalisation legal details: it has until mid-year to set the ground rules for full competition.

SOUTH AFRICA • By Mark Ashurst in Johannesburg

Bitter struggle to shield monopoly

Telkom's monopoly of 'basic' services has been guaranteed for five years, with the offer of a sixth year if the utility meets its pledges

Barely a year after the part-privatisation of Telkom, the South African telephone utility, its new management is embroiled in a bitter struggle to protect its monopoly of basic fixed-line services.

SBC International, the US communications giant, and Telekom Malaysia jointly paid R5.6bn ($1.25bn) in March 1997 for 30 per cent of Africa's biggest telephone operator. The transaction is the largest privatisation – albeit partial – yet undertaken in sub-Saharan Africa, and the largest single foreign investment in South African history.

The price tag values Telkom at R18.6bn, a substantial premium to most estimates of its current worth. Although rival bidders dropped out in the final weeks of the race, SBC believes the sum is justified by the promise of five years of exclusivity in its core local market.

That monopoly will last until 2003 – at the latest – when South Africa has assured the World Trade Organisation it will license a direct competitor. By then, the government hopes Telkom will have been transformed. The price tag, says Jay Naidoo, minister of posts, telecommunications and broadcasting, gives an indication of "what we expect [Telkom] to be [worth] in five years' time".

Telkom's monopoly of "basic" services has been guaranteed for five years, with the offer of a sixth year if the utility meets its pledge to install 2.7m new lines to poor and predominantly black communities. If it fails, the new owners will be penalised with dollar-denominated fines.

These terms – in particular the definition of "basic" services – have been hotly contested by Telkom's rivals in the private sector. Although new entrants have been barred from South Africa's fixed-line market, competitors offering added-value services and international telephone traffic have flourished.

Internet service providers (ISPs), whose overall competitiveness is rated among the world's top 20, last year recorded a combined annual turnover of more than R400m. Callback services – which route calls to and from South Africa via cheaper operators in third countries – claim savings of up to 25 per cent on Telkom's international charges.

Perhaps inevitably, the proliferation of new competitors has caused distress at Telkom. The Internet Service Providers Association first accused Telkom of abusing its monopoly of fixed line telephony in 1996. But the creation in February last year of the industry's first independent regulator, the South African Telecommunications Regulatory Authority (Satra), has provided a new focus for disputes and prompted a flurry of legal action.

In August last year, Satra ruled that international callback operators were violating Telkom's monopoly and gave them until September to close down. A month later, it rejected Telkom's claim that the ISPs infringed its monopoly of basic services. The regulator ruled that Internet service providers offered "added value services", which fell outside the monopoly of "basic services".

Callback operators and Telkom are currently pursuing separate legal actions to challenge the respective rulings. The outcome of each case will define the scope of Telkom's business, and test the limits of Satra's authority. The new regulator has unfettered jurisdiction over licensing all public network telephony, radio, paging and data services. But its main task is to prepare the industry for deregulation.

Telecommunications already contributes 7 per cent of South Africa's gross domestic product, but ministers believe the current infrastructure has stymied economic growth. "None of the government's plans can come to fruition without an economic backbone," says Mr Naidoo.

If Telkom fails to achieve its targets, Satra will impose fines. If its behaviour is anti-competitive, Satra can annul deals with local or foreign partners that could prejudice prospective new entrants. "During this period of exclusivity, we are the opposition to Telkom," says Nape Maepa, Satra's chairman.

But he defends the part-privatisation negotiated by Mr Naidoo, which he argues is vital to achieve the roll-out of new infrastructure to consumers neglected during the apartheid era. "It is an onerous monopoly, but we understand exactly why it has been allowed," says Mr Maepa.

As the legal action drags on, other sectors of the industry are braced for change. Satra is currently preparing for public hearings into the licensing of a third cellular telephone operator, following a feasibility study completed last year. Analysts have encouraged the licensing of a third operator to promote competition almost from the moment VodaCom and MTN, the current operators, were licensed in 1993.

New rules are also in the pipeline to fund the provision of telephone lines to uneconomic areas. Early drafts recommend imposing a levy on commercial operators, to be channelled into a universal service fund. This will pay for development in areas deemed uneconomic by commercial operators.

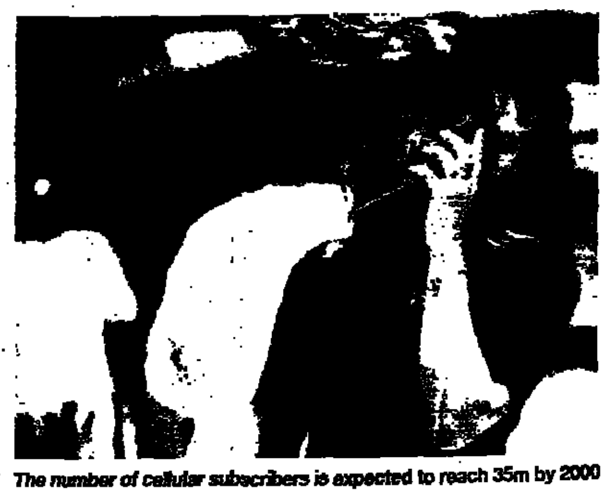
The first of these facilities – "Telecenters" – are scheduled to be launched in rural areas during the first half of this year.

Administered by a Universal Service Agency, Telecenters are intended to provide rural communities with instant access to the Internet, government and private sector databases. They will offer a range of services from telemedicine to telelearning and telelibraries.

The agency will also advise the government on the development of telecoms policy, which is a priority for the ruling African National Congress.

Although South Africa has a penetration rate of almost 10 phones per 100 inhabitants – one of the highest rates in Africa – the distribution is one of the most glaring legacies of apartheid. There are 64 telephone lines per 100 white citizens, compared with fewer than three per 100 black citizens.

Telkom has promised to upgrade the entire exchange to digital technology by 1999, and last year notched up 431,000 new connections. That makes Mr Naidoo's demand of 2.7m new lines by 2002 look feasible.



The number of cellular subscribers is expected to reach 35m by 2000

CHINA • By James Kynge in Beijing

Is the door finally opening?

There are signs that Beijing's policy of barring foreigners from operating networks could change – but for the time being, it's a waiting game

In telecoms, as in other areas of business in China, there is a tussle between the country's objective need to attract foreign capital and its reluctance to reward investments with meaningful market access.

Intensifying this conflict is the enormous potential of China's fast-growing market of 1.2bn people. The penetration rate was 7.4 per cent last year, with 24 per cent in cities. The target is for 10 per cent nationwide by 2000, with 30-40 per cent in cities.

But despite the large investments needed to secure such growth, China appears determined – for the time being – to achieve its goal without yielding on a central prohibition against foreign equity participation in actual network operation.

Wu Jichuan, minister of posts and telecommunications (MPT), recently gave a downbeat reading of whether this restriction could be revised to facilitate China's long-delayed accession to the World Trade Organisation (WTO).

"Opening the telecommunications market cannot be a condition of entering the WTO," Mr Wu said. He added, however, that the market could be opened before 2010, if certain unspecified conditions were met.

But despite the steadfast refusal to countenance foreigners operating networks in China, there are signs of an incremental loosening. By and large, foreign companies have turned their attention towards selected areas which fall outside the MPT's core monopoly in the hope of positioning themselves for the time when regulations are eased.

These areas include electronic mail and voice mail services, electronic data interchange, videotext, on-line database retrieval and storage and forward fax. Equity participation in these sectors is still restricted but officials have indicated that such value-added services may be the first to be liberalised.

Global One, the telecoms venture of Deutsche Telekom, France Telekom and Sprint, has won contracts valued at more than $10m to provide high-speed data and Internet communications systems to six Chinese provincial posts and telecoms administrations. It has also entered into an agreement with China Telecom, a new state cellular company, to facilitate connections between the US and China.

Hong Kong Telecom, majority-owned by Cable and Wireless of the UK, has some co-operative ventures with MPT. A Beijing to Hong Kong cable laid jointly by the two companies is expected to be inaugurated soon.

However, hopes that Cable and Wireless would be included in the ownership structure of China Telecom (following China Telecom's acquisition of 5.5 per cent in Hong Kong Telecom) have proved optimistic so far. But Cable and Wireless is still seen by many as likely to be among the first beneficiaries when China eventually allows direct foreign equity participation, analysts say.

Some foreign companies have begun to exploit the few loopholes which exist. There are companies installing V-Sat facilities, which allow users with a satellite dish to make international calls. The MPT appears relatively tolerant of this business, perhaps because it is small and it does not require connectivity with MPT's own network.

The ministry's tolerance of call-back services is, however, perceived to be much thinner. Customers of these services, which offer discounts of about 35 per cent on international calls, are growing slowly from a low base in some large cities.

"Some companies try to test the boundaries of market access," said one Chinese telecoms analyst. "But they run the risk of alienating the authorities and reducing their chance of getting a licence when the market is eventually opened."

In the areas where foreigners are permitted to operate, such as in equipment manufacturing and sales, the competition is intense. China's manufacture of switching capacity reached 15m lines in 1997, accounting for 90 per cent of the total installed in the same year. But in the next two years, manufacturing capacity is expected to grow to 20m lines – far beyond demand.

Mobile telecoms is the fastest growing sector, with the number of subscribers increasing by about 170 per cent annually since 1970. The total number of cellular subscribers rose beyond 12m by the end of 1997 and is expected to reach 35m by 2000, analysts said. Yet the prices of handsets supplied by mainly Motorola, Nokia, Ericsson, Alcatel and Nortel have dropped significantly over the past two years, due to an abundance of choice.

Telecoms analysts say that although the margins in equipment sales are very thin, foreign companies are likely to remain engaged in China because of the lure of eventual deregulation.

Optimists argue that the cause of market opening is assisted by the size of China's financing needs and the fact that this year foreign investment inflows are expected to slow, along with the wider economy. But other analysts suggest that recent experience tends to suggest such an argument is wishful thinking.

China Telecom, a subsidiary of the MPT, found ready buyers when it listed in Hong Kong last year. But, as Mr Wu points out, the foreign shareholders in the company do not expect to have any say in its management or to operate a network. If such methods of raising capital continue to be successful, the case for allowing direct foreign equity investment will remain weak, analysts say.

But in spite of policy and other restraints, China's telecoms sector is continuing its extraordinarily rapid transformation. Unicom, a cellular company set up in 1994 to rival the MPT, now enjoys freer access to the MPT's network than at the start of its existance – raising the level of competition.

The number of Internet subscribers is growing apace from a low base, despite continued political concern and the fact that only 3 per cent of households in China have a computer.

There are now some 400 domestic Internet service providers licensed by the MPT. Foreign companies are engaging in the design of Web sites and research on Chinese-language software.

But although the potential rewards are great, the opening of China's market appears likely to remain a waiting game. "In my view, the market will open, but bit by bit. It won't happen that one day you will wake up and say 'It's open'" said William Zhang, analyst at Beijing Tenason Telecom Consulting.

"It will probably take around five years," he added.

UGANDA • By Michael Holman

Kampala sets the pace with sell-off

Planners point out that despite Uganda's decade of high growth, the country has fewer phones than it had in 1971 when Idi Amin seized power

Phone cards are replacing coins in Kampala's public call boxes, cellphones have become a fashionable business tool, the country's two main newspapers have websites on the Internet, and the state-owned telephone system is up for sale.

The communications revolution has reached Uganda, and the country that helped blaze the economic reform trail in Africa is now leading the way in the privatisation of a sector whose efficient operation is essential to economic growth.

Twelve years after President Yoweri Museveni and his National Resistance Movement fought their way into power, the revival continues apace of a nation devastated by the despotic regime of Idi Amin and the war to overthrow him.

Under a wide-ranging reform programme, endorsed by the International Monetary Fund (IMF) and backed by the World Bank and other donors, the economy has been transformed. The introduction of market-driven exchange rates, trade liberalisation, and privatisation have paved the way for a remarkable recovery.

Kampala is surging and tourists are returning, together with many of the Asian community expelled by Amin some 25 years ago. The economy is thriving – gross domestic product growth has averaged 6.4 per cent during the past decade, and 8.1 per cent over the past three years.

If the recovery is to be sustained, say government planners, Uganda needs to improve and expand its telecoms service.

Planners point out that despite Uganda's decade of high growth, the country has fewer phones than it had in 1971 when Idi Amin seized power. Then the country had 100,000 telephone lines. Today, Uganda has only 46,000 lines serving a population of 19m.

The World Bank estimates that as much as 2 per cent annual growth is lost through the poor performance of the national phone network and the impact on the economy of erratic power supplies.

As is often the case in Africa, it is easier to call London or New York than to make calls within the country itself. Businessmen complain that it can prove so difficult to get through from Kampala to the nearby towns of Jinja or Entebbe that it can be quicker to drive, and track down the person they want to see in their office or at their home.

That journey, while only an hour, is expensive enough. But for businesses trying to keep track of operations further afield the cost of staying in touch can make the difference between success and failure.

"If we are to sustain high growth," says a senior government economist, "we need efficient communications: they are essential if we want to improve the financial services sector, vital to our plans to increase tourism, and at the heart of a modern agriculture sector. This means better roads, and more phones."

If all goes according to plan, the country's communications network is on the verge of being transformed, part of the latest and most exciting phase of Uganda's privatisation programme, involving the state utilities – electricity, railways, water and the national airline, and telecoms.

One of the conditions of the privatisation of Uganda Posts and Telecommunications (UPTC) is that the successful operator should double the lines available by the end of three years, and increase the total to 150,000 within five years.

The divestiture of UPTC, expected to be the biggest sell-off since the process started in 1992, got under way when parliament passed the Uganda Communications Act.

This authorised the break-up of the corporation into Uganda Telecommunication Ltd (UTL), which will be privatised, Uganda Posts Ltd (UPL) which will remain in government hands, and the Uganda Communications Commission, which will be the regulator for the sector.

According to provisional figures prepared by accounting firm KPMG and agreed by UTL's management, the company's net assets are worth $38m, making it the biggest enterprise to be privatised since Uganda began the process in 1992.

Government will initially offer 51 per cent of UTL for sale to a core investor, who will assume management responsibility, while the residual shares will be offered to the public at a later date.

Any consortium seeking to acquire 30 per cent or more of the company will have to include one operator already providing at least 200,000 fixed lines. Other requirements include leading bidders proving minimum revenue of at least $200m for the last financial year or at least one consortium partner showing revenue of $100m.

In the meantime, however, modernisation and expansion of UTL in the run-up to the sale will continue. "Plans are already under way to increase our existing lines by 10,000 next year," says an official.

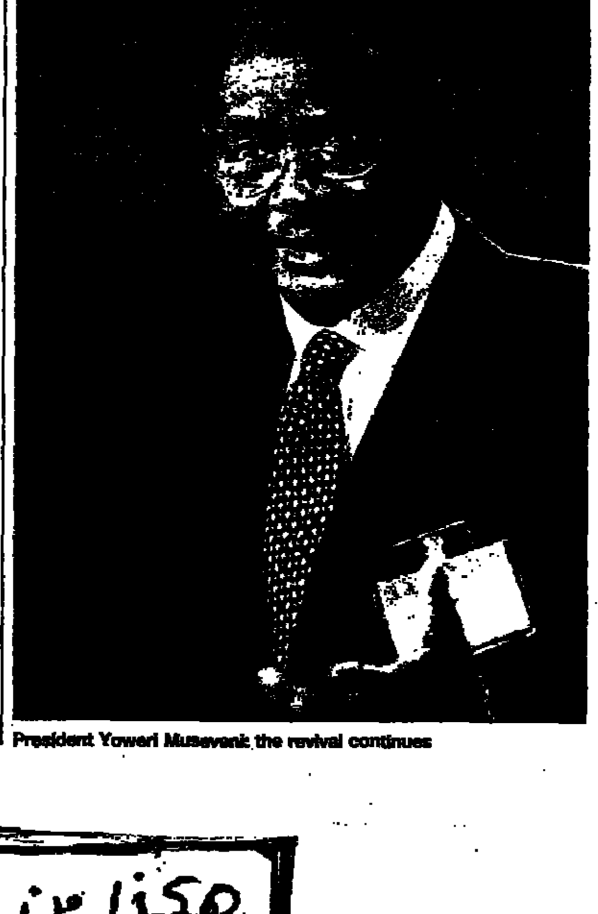
The company will face competition from Uganda's recently licensed Second Network Operator (SNO). The successful bidder – with $5.6m – for the licence was Mobile Telephone Network (MTN), a consortium with MTN Holdings of South Africa as the leading partner with a 50 per cent interest, Sweden's Telia Overseas AB (30 per cent), Investco Uganda (10 per cent) and Tristar Investments of Rwanda (10 per cent).

The group, which is also bidding for licences in Rwanda and the Democratic Republic of Congo (formerly Zaire), plans to lay 80,000 lines in the next five years.

The unsuccessful rival company was Utelnet, the international affiliate of Portugal Telecommunications, which has the Aga Khan fund for economic development as a big shareholder.

Utelnet may well now turn its attention to UTL, for which pre-qualification bids were invited last month, with submission of final bids due in May.

"Our intention is not simply to sell the licence to the highest bidder, but to one who intends to increase our telephone line density significantly," says a senior official in the communications ministry.



President Yoweri Museveni: the revival continues

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ASIAN OVERVIEW • By John Ridding in Hong Kong

Crisis could act as a stimulus

Competition is sharpening and some operators may find it a struggle to survive

Consolidation, deals and deregulation are likely to prove the watchwords as Asia's telecoms companies wrestle with the aftershocks of regional financial upheaval. Few in the industry believe the downturn will undermine its long-term growth potential, but it seems sure to affect the pace of growth and the balance of power within the sector.

Evidence of upheaval is already emerging. In a deal concluded in January, Hongkong Telecom paid HK$4.83bn to take control of Pacific Link, the territory's fourth-biggest mobile telecoms operator. A few weeks later, the Hong Kong government announced an agreement ending Hongkong Telecom's international licence, marking the latest and one of the most aggressive moves towards deregulation in the region.

These are not isolated cases. Instead, most analysts believe they mark a stage in a gathering process. "With other emerging telecoms companies struggling, the issue for most countries is when rationalisations will take place, rather than if," says SBC Warburg. The investment bank describes Hongkong Telecom's acquisition of Pacific Link as "the first of many rationalisations".

Similarly, many in the industry predict the protective barriers in the sector will continue to tumble. "There was already a lot of pressure to liberalise from the World Trade Organisation, from the US and from Europe," says one western trade official. "Now you will see governments being encouraged to open to foreign capital because their local companies are starved of capital and because they need to sharpen their competitiveness."

Both forces reflect the fact that life has become much tougher for many of Asia's telecoms operators. After a period of rapid expansion, which drew new operators into the sector, economic slowdown will depress demand growth and sharpen competition.

While telecoms demand in developing markets tends to be less sensitive to GDP than in advanced economies, analysts still expect a downturn. Most exposed will be cellular services, which remain substantially more expensive than land lines and which have seen rapid expansion over recent years.

Not all markets will suffer the same pain. "Taiwan is the bright market", says SBC Warburg, which forecasts the cellular market will double this year. Elsewhere, there is likely to be a struggle for survival as competition intensifies. "We expect to see a bout of mergers and acquisitions in the sector, in Hong Kong, Malaysia, the Philippines and in Thailand," says the head of corporate finance at one Hong Kong investment bank.

Many commentators, however, see the downturn as an opportunity rather than a crisis. "In many of these countries there is still very strong growth potential. Penetration rates are still very low in the Philippines for example," says Mark Dowie, head of corporate finance at Jardine Fleming.

As with Hongkong Telecom's purchase of Pacific Link, predators are likely to emerge from the ranks of the existing dominant operators. "The top three operators in terms of cashflow generation will have an estimated $10bn in excess cash to spend in 1998," says Goldman Sachs. Singapore Telecom is viewed as a potential buyer for assets in the region, while China Telecom, the Hong Kong arm of the dominant mainland operator, is also expected to accelerate its expansion.

International operators may also seize the opportunity arising from the crisis to expand in the region. Deutsche Telekom is reported to have been studying purchases, including a stake in Islacom of the Philippines.

"When this kind of downturn occurs we will probably see a familiar pattern develop," says the telecoms analyst at one European investment bank. "We will see the strong get stronger and the weak disappear as competition sharpens."

Competition is also sharpening at the national level as the pressures to satisfy international liberalisation demands, increase competitiveness and attract investment have increased. These motives were explicit in Hong Kong's move to end the international monopoly of HongKong Telecom six years ahead of schedule in exchange for a compensation package which included a cash payment of HK$6.7bn.

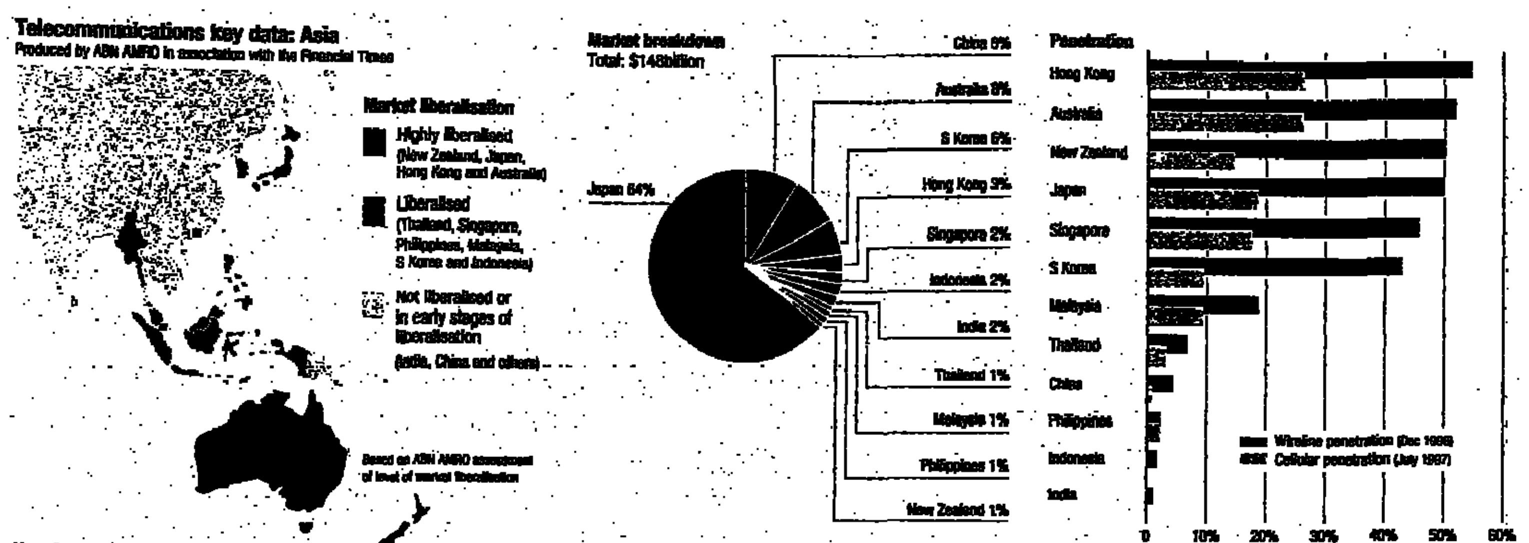
The move was driven partly by the need to stay ahead of regional rivals. "It should allow Hong Kong to reclaim its position as the pre-eminent telecoms hub in the region," said Alex Arena, special adviser to the government on information infrastructure.

In particular, Hong Kong had an eye on Singapore, its main rival as a regional telecoms hub and which had already announced the end of monopoly services for Singapore Telecom.

But the deregulation in Hong Kong also reflected concerns to bolster the economy amid the regional financial upheaval. "This liberalisation, coming at a time of economic uncertainty in the region, will give Hong Kong a significant economic stimulus," said Stephen Ip, secretary for economic services. He predicted a boost to jobs and investment and a saving of HK$17bn for consumers.

"The real impact of this crisis, across all industrial sectors, is that cash and competitiveness are king," says the head of the telecoms division at one consultancy group. After the initial shock, I would expect this crisis to act as a stimulus for the expansion of the regional telecoms industry."

Telecommunications key data: Asia
Produced by ABN AMRO in association with the Financial Times



Key players

	Incumbent Telco	Regulator
Australia	Telstra	Australian Competition & Consumer Commission
China	MPT/China Telecom	Directorate General of Telecommunications
Hong Kong	Hong Kong Telecom	Office of Telecommunication Authority
India	Department of Telecommunications	Telecom Regulatory Authority of India
Indonesia	PT Telekom, Indosat	Ministry of Tourism, Post and Telecoms
Japan	Nippon Telephone and Telegraph	Telecommunications Bureau
S Korea	Korea Telecom	Ministry of Information and Communications
Malaysia	Telekom Malaysia	Jabatan Telekom Malaysia
New Zealand	Telecom NZ	No specialist body
Philippines	Philippines Long Distance Telephone Co	National Telecommunications Commission
Singapore	Singapore Telecommunications	Telecommunications Authority of Singapore
Thailand	Telecom Organisation of Thailand/ Communication Authority of Thailand	Ministry of Transport and Communications

Sources: ABN AMRO; ITU; FT Mobile Communications Newsletter; OECD

New entrants

	Wireline long distance/international operators	Cellular operators
Australia	Optus, AAPT	Optus, Vodafone
China	Unicom	Unicom
Hong Kong	Hutchison, New T&T, New World Telephone	SmarTone Telecommunication, Hutchison, P Plus, Peoples Telephone, Mandarin Communications, New World Telephone
India	None	Bharti Cellular, MTNL, JT Mobiles, Fascel, Birla AT&T, BPL Cellular
Indonesia	Satelindo	Satelindo, Telkomsel, Excel Komindo, Komselindo, Metrosel, Telesera, Mobisel
Japan	Japan Telecom, KDD, IDC	IDO, DDI, Tu-Ka, Digital Phone, DTK
S Korea	Dacom, Onse Telecom	SK Telecom, Shinsegi Telecom, Hansol PCS, KT Freetel, LG Telecom
Malaysia	TRI, Mutiara, Binariang, Time Telecom	Celcom, Mobikom, Binariang, Mutiara
New Zealand	Clear, Telstra, Bell South NZ	Telecom NZ, BellSouth
Philippines	Digitel, Telecill	Globe Tel, Piltel, Islacom, Smart Communications
Singapore	None	MobileOne
Thailand	None	Advanced Info Services, Total Access Comms, Wireless Communication Service, Digital Phone Co

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INDIA • By Amy Louise Kazmin in New Delhi

Fierce power struggle has emerged

The outcome of court battles between the fledgling telecoms regulator and the government will be critical for the future of India's telecoms sector

In January last year, India's Department of Telecommunications suddenly announced that the price of calls from a fixed line to a mobile phone would be increased by about 700 per cent – from 1.4 rupees per minute to 10 rupees. Public reaction was swift: revenues for fledgling cellphone operators plummeted to nearly zero as most Indian consumers opted not to make expensive calls to mobile phones.

Private cellular operators acted just as fast: they rushed to the recently-constituted Telecom Regulatory Authority of India (TRAI) and appealed for the price increase to be quashed. In April, the TRAI, barely three months old, ordered the DoT to cancel the new fixed-to-mobile tariffs, much to the relief of the cellphone operators.

That ruling was the opening salvo in what has now emerged as a fierce power struggle between the fledgling telecoms regulator and the government over the regulator's role in the liberalisation of India's telecoms industry. The battle escalated in mid-February when the TRAI nullified a licence granted by the DoT to state-owned Mahanagar Telephone Nigam (MTNL) to set up new cellular phone services in Delhi and Bombay.

Acting on a petition again brought by private cellphone operators, the regulator issued a sharply-worded rebuke to the DoT, saying that it was "mandatory" for the government to seek a recommendation from the regulator before allowing new entrants into the market. Because the DoT did not consult the regulator about the "need and timing" for MTNL's planned market entry, the licence given to it was invalid, it ruled. The judgment also claimed the regulator had the prerogative to make recommendations on other key licensing issues, such as the terms and conditions set for new operators, and when licences should be revoked.

The ruling, hailed by private cellphone operators, paves the way for what could be a final showdown over the scope of the regulator's powers.

While the government has accepted the regulator's jurisdiction in tariff-setting, it shows no willingness to relinquish or share its authority to set licence conditions and allow new operators.

For MTNL, which issued $358m of global depository receipts last year, the ruling was also an important blow, because it had told investors that it planned to start offering cellphone services by the fourth quarter of this year. S. Rajagopalan, chairman of MTNL, called the decision to revoke its licence "a total misreading of the powers of the TRAI."

Government lawyers have argued that the regulator's opinions on new market entrants are to be considered only as non-binding "advice", not required for government decision-making. They say the DoT still has the exclusive authority to grant permission to new operators – with or without obtaining the regulator's approval.

The DoT, and the state companies operating under its protective wing, are expected to take this argument all the way to the Supreme Court. The govern

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MERGERS AND ACQUISITIONS • By George Black

Deregulation of EU market spurs full competition

Analysts see no let-up in the merger mania which has swept the industry. Software and computing services businesses may be the next targets

The merger mania which has affected the telecommunications industry in the past year is likely to increase, say analysts. And some think it may be still only in its early phase.

The number of telecoms mergers and acquisitions in Europe last year was a third more than in 1996, according to Broadview Associates, an investment bank specialising in mergers.

One of the main reasons for this was the deregulation of the European Union market from the beginning of this year, bringing in full competition in both fixed and mobile networks.

The recent World Trade Organisation agreement to liberalise telecoms worldwide will increase the momentum towards acquisition.

Liberalisation is creating many new private companies which need to acquire or to drop out and new markets into which they can expand.

In the US, local operators are looking mainly for domestic partnerships while some long-distance operators are forming alliances both at home and abroad. In eastern Europe, national operators in the Czech Republic and Hungary have sold stakes in their networks; others may copy this.

Global alliances are emerging. AT&T is involved in Unisource, with KPN of the Netherlands, Swisscom, Telecom Italia and Sweden's Telia; BT set up Concert with MCI, Spain's Telefonica and Portugal Telecom; and Global One was established as a joint venture between Sprint, Deutsche Telekom and France Telecom.

Olivier Perraudin, managing director of Merrill Lynch's investment banking arm, thinks that many of these alliances remain fragile; some members are likely to drop out and new ones come in, he says.

The biggest deal in the past year was the takeover of MCI by Worldcom for about $37bn. This was still not completed last month and has been the subject of a complaint to regulators by GTE, which also wanted to buy MCI.

Worldcom's bid beat an earlier one by BT, which was widely criticised by analysts for its handling of the affair. But BT was lucky and came out with a useful profit on its holding in MCI.

GTE is looking for a European partner and BT might suit it. BT still wants a US partner and GTE is on its list, but so are Bell Atlantic and SBC Communications. If GTE cannot strike a deal with BT, it could look to Cable & Wireless, BT's main UK rival.

BT has also been looking for partners which could strengthen its position in other parts of the world. There was an unsuccessful move to take over or merge with C&W, a plan which analysts say has recently been revived.

BT has denied a rumour that it would be taken over by Microsoft; Microsoft said it did not want to buy any telecoms operator.

AT&T, despite its troubles at home, is said to be interested in Energis, a recent UK entrant into long-distance business communications and in the UK mobile operator Vodafone, also a rumoured target for one of the regional Bell operating companies.

AT&T was pursuing a merger with SBC, but that was blocked by the Federal Communications Commission as too powerful an alliance between a long-distance and a local operator. However, a court decision to lower the barriers to long-distance competition across the US could increase the number of takeovers and alliances there.

SBC, which last year bought Pacific Telesis, the west coast local operator, has also offered to buy Southern New England Telecommunications to expand from the local to the long-distance market.

Mergers between fixed and mobile operators are also expected to increase. So far, the largest was the takeover of McCaw by AT&T. Fixed network operators are keen to gain licences to run mobile networks.

An important unknown factor is how willing governments will be to allow their national phone companies to be taken over or to go into relationships in which they are the minor partner.

The question is whether they will endorse the free market and allow those companies they think best for the long term or whether they will view them as part of the national heritage which has to be protected from foreign predators.

Deutsche Telekom and France Telecom have exchanged small equity stakes with their governments' blessing, but it might be a very different story if one were to bid for the other.

The US government was apparently willing to let BT buy MCI, perhaps because it was viewed as a small operator in a large market, but if a US operator bid for BT, the UK government would have some heart-searching to do and could be faced with a hot political issue.

Some analysts believe that protectionist instincts remain deep-rooted in Europe and will not be quickly eliminated by the official opening-up of the market.

But Mr Perraudin thinks that governments of smaller countries are becoming more willing to let their national operators be controlled by outsiders.

He points out that Ameritech, Tele Danmark and Singapore Telecom already come close to controlling Belgacom with 49 per cent and that Ameritech has been allowed to take 42 per cent of Tele Danmark.

The latter deal has made Telia of Sweden and Norway's Telenor want to hasten their merger in the face of new regional competition, which may persuade their governments to allow it.

Telecoms companies are increasingly interested in acquiring information technology companies to keep up with technological change and to do more business with large corporate customers. This may be particularly important for operators which are losing part of their domestic customer base.

C&W's recent purchase of Anite Group's networking business is an example of such a move into IT.

Victor Basta, managing director of Broadview Associates, thinks that acquisitions of IT companies by telecoms operators will be the most important trend of the next couple of years.

He sees GTE's purchase of Bolt Beranek Newman and Worldcom's of UUNet Pipex as straws in the wind. Software and computing services businesses may find themselves getting unwanted attention in the near future.

INTERCONNECTION • By George Black

Accounting rate system is nearing point of collapse

Operators are bypassing the system in various ways, such as via private networks

The accounting rate system, which governs how operators pay each other for connecting their international calls, is getting close to collapse.

Political as well as technological change has undermined the old system. The liberalisation of the telecommunications market worldwide is set to overturn it just as much as the impact of Internet telephony and call-back services.

The accounting rate is the system by which countries have paid each other for completing international calls. *If there is an imbalance in traffic, the party which creates the greater* amount pays the other a compensating sum.

The system dates back to the last century when European countries agreed how to divide revenues from international services.

It worked well enough while the telecoms industry was made up of government-owned monopoly suppliers, call charges were much the same in each country, the volume of calls in each direction was roughly equal and economic relations between *the countries* were *stable*.

But these conditions no *longer apply. International* traffic has become a much more complicated business, with many more suppliers and many different ways of making calls.

Many operators are bypassing the system in various ways, such as by using private networks. The less comprehensive it becomes, the less fair it is. The notion *of fixed rates for calls is out* of date.

In a liberalised market the accounting rate system disadvantages new *entrants to* the market who need to *negotiate with dozens* of countries individually.

Interconnection is one of the biggest concerns for new entrants and typically their biggest single cost.

Experts have been expecting the old system to collapse for about 10 years – and it is now starting to happen.

The US wants it scrapped as soon as possible. US operators point out that in 1995 they paid $5.4bn to foreign operators and the imbalance between nations is growing. As the US becomes relatively more prosperous, its outbound telephone traffic grows; the US is a culture in *which people routinely* make long calls.

The accounting rate system, according to its US critics, means that US users pay much higher prices than they should do and other countries are encouraged to maintain their monopoly suppliers.

So the US government has lobbied the International Telecommunications Union for reform. The ITU, with the support of 80 countries, agreed last year to work towards bringing accounting rates down into line with the actual costs of completing *calls over a period of five* years.

*But in August the US Fed*eral Communications Commission tired of waiting for progress and unilaterally set benchmarks for US operators to establish new settlement rates from 1999.

Operators in other countries, including Japan and South Korea, two of the countries which would be most disadvantaged by the *new system, promptly* objected and threatened to sue the FCC.

The objectors to the FCC's *action say variously that it* has no right to impose a new framework on the rest of the world, that US operators help to create the imbalance, for example by promoting call-back services, that the FCC's calculations are incorrect – and that anyway the US should help other nations modernise their networks.

The FCC's new system would adversely affect foreign carriers, call-back operators and most non-US users to different extents. Other countries which would be substantially hit include Hong Kong, Israel and Brazil.

The legal position is unclear even to experts in the field. The case is going *through the US courts, but it* could take a long time to *resolve because it is likely to* be subject to appeals.

It is by no means certain that the US legal system will ultimately support the FCC.

This week, the World Telecommunications Policy Forum of the ITU meeting in Geneva is trying to resolve the issue by asking member countries to accept a price cap on international agreements.

Tim Kelly, the ITU's head of operations analysis, says the aim is to take the heat out of the argument by producing a *lowest common* denominator which everyone *can accept. The price cap is*, however, well above the level of settlements proposed by the FCC.

The European Union's view has been that it approves the principle of scrapping the accounting rate system and is not concerned about protecting the profits of operators in member states.

It would like to move to greater competition and *lower prices for users within* the EU and expects the accounting rate system to disappear in the near future anyway. But it questions the FCC's authority to impose a new system.

The European Commission warned the FCC that its statement was contrary to World Trade Organisation rules and that it would appeal to the WTO against it. That has not yet happened.

The WTO's liberalisation of telecoms worldwide, which was due to come into force in February, did not tackle the accounting rate issue. The WTO is not planning to consider the subject until 2000 at the earliest.

On transatlantic routes, especially between the US *and the UK, and on some* Asian routes, the accounting *rate system* has already developed serious cracks. Agreements are being renegotiated outside the old system.

In the EU, the accounting rate system is likely to break down quite soon, according to Audrey Mandela, an independent telecoms consultant. Incumbent operators will try to keep the rates as high as they can, but will be obliged to renegotiate closer to real costs, she forecasts.

In other parts of the world, the old system could take a *longer time to be* superseded. But the FCC's *intervention may serve to* speed up the process of renegotiating rates voluntarily around the world.

Some countries, such as Mexico, have begun renegotiating to ensure access to the US. Others are in danger of finding themselves without access to the US.

CONVERGENCE • By Joia Shillingford

Telcos are well placed

Opinions vary as to who will make the most of convergence – but size is likely to be very significant

The imminent launch of *digital television, and* the potential of developments such as shopping via the Internet are creating massive demands for telecoms capacity and ingenuity. But who will the winners be as telecoms and media converge? Will they be traditional telcos, media companies or start-up ventures?

Telecoms companies are well placed to benefit from convergence – the coming together of previously separate industries such as media, telecoms and computing.

Digital television will create heavy demand for telecoms capacity because it can be sent over high-capacity telecoms lines in the same way as data. The Internet is *also increasing telcos' reve*nue from data – the average *five-minute UK local call* will increase to 20 minutes when Internet users are shopping on-line, predicts telecoms consultancy Phillips Tarifica.

Another benefit of convergence is that it gives telecoms companies the chance to offer new services that were once the sole preserve of media companies, such as publishing (via the Internet) or broadcasting. Large operators such as British Telecommunications and MCI can set up as Internet *service providers* (ISPs). Because of their large user base and national networks, this is an area where they can succeed.

Broadcasting is already a reality for CWC, part of Cable & Wireless. CWC, formed last year from C&W phone company Mercury and three cable television companies, offers a combination of cable TV and local and long-distance calls to 25 per cent of UK households.

Graham Wallace, CWC chief executive, says he *believes digital TV will* accelerate the pace of convergence. For CWC, digital TV will mean being able to offer more customers greater choice of channels and greater interactivity.

Later this year, CWC customers will get digital television plus an interactive CWC programming guide that will enable them to see at a glance which programmes are on, on the channels they watch. In early 1999, they will be able to use the same set-top boxes they use to receive digital TV to "surf" the Net.

This is when customers will start to notice and bene*fit from convergence*. Mr Wallace says a viewer who *misses an episode of the Coronation Street* soap opera *will be able to go straight to* the programme's Web site on the *Internet and find out* what happened. Or a football fan will be able to check the line-up for the afternoon's football game and get information on the players.

Because the customer will be using a cable TV network with a high-capacity coaxial cable into the home, the customer will not have to log onto the Net but in effect will be permanently connected. Users will also be able to use Korean- made *keyboards to send electronic* mail (e-mail) in the breaks between programmes.

The keyboards will communicate with the television via an infrared link, although Mr Wallace says there will always be more complex Internet tasks that can only be carried out on a PC. CWC sees itself as a retailer, selling programmes from British Sky Broadcasting (with whom it is launching digital TV), Flextech, and others.

Until last month, BT was also threatening to enter the *broadcasting business* by sending programmes over standard phone lines using Asymmetric Digital *Subscriber Line (ADSL)* technology.

In theory, there is a bright future for media companies, with more and more channels requiring more and more programmes, and more and more Internet users needing Web sites to look at. But they face a number of threats.

The digital revolution lowers the cost of producing television and printed media to the point where start-ups without much capital can threaten established operators. Media companies will also face increased competition as telecoms companies and ISPs have the opportunity to distribute programming and information direct *to customers*.

The Internet is also com*peting for viewers*. Mr Wallace believes it is no coincidence that Internet usage has shot up in the US at the same time as TV viewing is declining.

Finally, many of the existing TV companies and some printed media companies have little experience of paying customers – other than advertisers. "They are not used to dealing with customers direct and do not have the necessary billing and other systems in place," says Mr Wallace. Telcos, by con*trast, are used to dealing* with the large number of *customers it takes for a TV* company to be profitable.

Robin Duke-Woolley, senior consultant at independent consultancy Schema, believes a battle is looming between telecoms and media companies for the commercial opportunities presented by new converged telecoms and media services.

"Content is likely to produce better margins, so media companies will come out on top," says Mr Duke-Woolley.

But Mr Wallace is not so sure. He says: "As with *actors and actresses*, the pay of content providers, such as programme makers, tends to be highly differentiated with a *high-paid few* and a low-paid majority. The top 0.01 *per cent* – like the makers of American programme *ER* – *make millions and the rest* are lucky if they are making cost plus five per cent."

Success factors for winning in the converged future are likely to be: the money to commission and purchase content (such as BSKyB and Hollywood studios), direct access to the customer and a strong enough brand name to stand out from the crowd. To this list Mr Wallace adds the ownership of valuable rights such as sports events.

Large telcos have strong brand names and direct *access to the customer*. At present they do not tend to *purchase content or rights* (CWC gets a lot of its programmes from Sky) but if they find they are good at television, there is nothing to stop them.

Media companies have lots of experience of commissioning and sometimes creating content. And some have strong brand names. But they do not always know who their customers are, and this *makes it difficult to* sell them new services when *existing ones come* under pressure.

Telecoms companies of various sizes will be the clear winners from convergence. "There will some winners too among large media companies or telecoms-and-media combines," says Mr Duke Woolley. He does not think start-up telcos or media companies will have a chance, unless they have massive financial *backing*, because size is important in reaching the mass market.

Fierce struggle

Continued from Page 7

ment has already gone to court to challenge another decision by the regulator: a stay on the payment of licence *fees by several cell*phone operators which, until then, had not received interconnect agreements from *Videsh Sanchar Nigam, the state-run* company with a *monopoly* on domestic long-distance and interna*tional calls*.

"Both sides are fighting *for their domain*," said Mahesh Uppal, a telecoms policy expert.

The outcome of these *court battles, analysts* say, will be critical for the future *of India's telecoms sector*, which opened to private par*ticipation in 1992*. While the launch of privately-run basic *telephone services has* been bogged down, 23 companies now run more than 40 cellular networks in India, with two companies operating in each region.

Almost without exception, though, these companies are struggling due to low usage and high licence fees. Direct competition with MTNL would further exacerbate their woes because the company is the monopoly provider of certain infrastructure which all cellphone operators require.

Cellular operators and analysts argue that a strong independent regulator is necessary to protect them from a powerful telecom bureaucracy that cares little about their survival. Most feel that the regulator's *interpretation* of its powers is correct and will be *sustained* in court. "If there is no protec*tion for investors against* the arbitrary and capricious decisions of the DoT – which is both a competitor in the *market and also setting* the rules for the market, it's an untenable situation," said a western diplomat monitoring *telecoms policy*. "*My reading* of the TRAI Act of 1997 is that they have the power to do what they are doing."

But the power struggle may expand to new fronts. *In an attempt to pre-empt a* court judgment in the regu*lator's favour, DoT* officials had been quietly pressing parliament to amend the TRAI act to specify that the regulator has no power when it comes to licensing.

Justice S. S. Sodhi, the chairman of the regulatory authority, has issued public statements warning that any steps to dilute the TRAI's powers will discourage future investments in the telecoms sector – as well as other areas of the economy.

But despite all the heat, some analysts believe government resistance to regulation will eventually fade, after the court battle is resolved. Even Mr Sodhi is *optimistic*. "I look upon these as teething troubles which will be sorted out in the not-too-distant future," he said. Investors in India's telecoms sector hope so.

EUROPEAN LIBERALISATION • By John Williamson

Why January deadline was significant

On the surface nothing radical seems to have happened, but there is plenty going on behind the scenes

January 1 this year was designated by the European Commission as the day that would mark the end of various restrictions in the region on basic telecom*munications* service provision. In practice, countries such as Sweden and the UK had already jumped the liberalisation gun, while member states such as Greece had obtained consent to delay parts of the liberalisation package.

On the surface at least, nothing very radical seems to have taken place as the year has unfolded, and it certainly appears to be business as usual for the incumbent former monopoly operators.

But appearances can be deceptive.

In the first place, January 1998 is only the culmination of a process which began in 1984. This has seen European authorities first establish legal authority in the telecoms sector and subsequently extend the scope of their involvement to regula*tory matters and the estab*lishment of a framework for *the opening-up* of the sector to competition.

This was followed by substantial liberalisation of the mobile, data networking and value-added sectors of the *market. In the past 14 years* the region's telecoms industry has been re-shaped.

Second, while there may *be a low level of awareness* among the general public of what January 1 was supposed to represent, the story is very different in the business community. Last year, equipment vendor Alcatel commissioned a Europe-wide survey of business awareness of, and readiness to act on, the impending telecoms deregulation.

"In most countries the percentage of companies who said 'Yes, we're ready to take a significant share of our traffic to a new provider, providing it's good quality,' is very high," according to Jacques Dunogue, executive vice-president of Alcatel Telecom. "It's beyond 90 per cent. We were very surprised."

Some of the most aware and active users are actually other telecoms operators. "I'm encouraged that we're seeing more and more price *and quality competition on* the high density bandwidth *between the major markets* such as Frankfurt, Paris and London and so on," comments Jim Cosgrove, chief executive officer of AT&T-Unisource Communications Services, one of a new breed *of data, voice and intranet* service providers to the world's leading corporations.

"Our major multinational *customers are demanding* the best prices they can find in the world and they're not very sympathetic to the cir*cumstance that one country* is still a monopoly country and another is more liberalised."

A *third consideration* is that new market entrants have been busy constructing their alternate networks and systems in many locations, and are now poised to interconnect with the existing national telecoms infrastructures and start attacking the incumbent telcos' businesses.

So it really isn't business as usual for the incumbent operators as the continuing legal wrangles over the terms and charges for interconnect amply demonstrate.

In general, the former monopolies rarely get a sympathetic hearing, but there is logic to the arguments of senior industry figures such as Dr Ron Sommer, chairman of the board of Deutsche Telekom. In February, *he told Telekom's annual* Internationales Presse Kolloquium (IPK) in Hanover of his reluctance to spend billions of D-Marks on further improving his network if one of the consequences was that his competitors would then be able to offer better ser*vices*. Dr Sommer believes that liberalisation and *deregulation should be about* the proliferation of innova*tive solutions in the market*place, not about clipping a *few pfennigs off the price of* a long-distance call.

"Licences for new providers should be contingent on *fulfillment of demanding* performance standards. We have been unable to find acceptance for this position," Dr Sommer told the IPK. "Instead, a price war has been unleashed in which ever-increasing numbers of competitors are striving for the title of cheapest on the block."

As well as interconnect, other contentious issues are telephone number portability, pre-selection and the establishment and empowerment of national regulatory bodies. The possibility that each of the latter will operate a slightly different regime could pose particular problems.

The existence of slightly different regulatory regimes seems inevitable given the different philosophies already apparent in different *national approaches to* establishing competition. In this *context, the UK* provides a marked contrast with Germany.

The British approach has been to try and incentivise network-led competition. Not everyone is convinced of *the success of this approach*, and BT still overwhelmingly *dominates overall* national telecoms. However, this *dominance* is much less for international traffic, and *there is evidence that* in the City of London, say, BT may have less than half the business.

"*Competition* is a lot healthier in the corporate sector," observes Kris Szaniawski, a senior consultant with Ovum.

To date, the German authorities have put emphasis on re-sale of capacity and service on Telekom's network. "In the long term, it may be bad because it will then reinforce Deutsche Telekom's dominance of the network," says Mr Szaniawski. "On the other hand, if you're getting competition because the interconnect policy is so good, maybe you don't need alternate networks."

Right now it's anyone's guess how much business the former monopolies will forfeit, particularly *with* additional instability arising from the increased use of the Internet for telephony and *the rise* of the cellphone as an alternative to the wire*line* telephone. It is clear, though, that the incumbents won't go down without a fight.

"The cleverest among them will capitalise on their monopoly (inheritance), and first and foremost on their major assets – their existing customer base and their ownership of 'last mile' copper," according to Yoram Holtz, vice-president of marketing at Israel-headquartered data and access equipment manufacturer RAD Data Communications.

"PTOs that aren't as clever and adaptive *will lose* their dominant position."

But it isn't only the former monopoly PTOs who, to paraphrase the Chinese curse, are going to have to live in interesting times. The further liberalisation of the market will *continue* to distance the incumbents from their traditional suppliers.

"Older players are finding it hard to keep their market share," says Mr Holtz. In parallel, with both incumbent and incoming service providers now more interested in profit and loss than technology, equipment manufacturers are having to take more responsibility for the development of tomorrow's telecoms solutions.

"In terms of innovation, we have to take more of the risks," says Mr Dunogue. "In this new world of de-regulation we also *tend* to play a bigger role in setting up standards." Interesting times all round.

The author is senior technology editor at Global Telephony Magazine.

SOFTWARE • By Jola Shillingford

Open systems lure operators

There are pros and cons to off-the-shelf software – but many observers believe the move in their direction is inevitable

Surely open systems are old news? Not in the telecoms business. Until recently, large protected monopolies have been able to develop their own proprietary systems in-house. But now, telecoms companies are starting to abandon in-house software for cheaper, off-the-shelf products.

There are several reasons why, according to independent telecoms consultant Frank Owen. The first is that off-the-shelf software is cheaper because research and development costs can be spread over a number of customers.

"By contrast," says Owen "the R&D investment telecoms companies (telcos) must make in research and development is huge. So they have to decide whether to go for a leading-edge product or something more basic. But if they do decide to go for the expensive option, how do they amortise the R&D costs over one client – themselves?"

The second reason for the trend towards off-the-shelf software is that in-house IT departments do not always charge a competitive price for their work. "If I wanted to charge £10m for a billing system, I wouldn't be able to sell it," says Mr Owen. But if I was an IT manager providing the system internally to an industry giant like BT, France Telecom or Deutsche Telekom, I'd get the funding."

Mr Owen, who used to work in the semiconductor industry, believes the telecoms industry will go the same way. He says: "Ten years ago, US chip companies like Texas Instruments and Motorola had their own computer-aided design systems. Today, they all use external products like Cadence and Mentor Graphics, which are sold worldwide."

Alan Norman, marketing communications manager at telecoms equipment maker and engineering company Siemens, says the move towards open systems in telecoms today is like the changes that took place in the computer industry in the 1980s.

Off-the-shelf systems have a number of benefits in addition to a lower cost of ownership (over the life of the system). "An external supplier should have a good understanding of features in use in other parts of the world," says Mr Owen.

It is also likely to be more involved in the process of setting standards for the new modular software architectures the industry is moving towards. So a telco buying software from a good external supplier should be able to find other software that works with it.

Buying off-the-shelf software is not without its pitfalls, however. "You can lose control of your own destiny unless you make a deal to gain access to the supplier's source code and perhaps its engineers," says Mr Owen.

"You may also find it difficult to get hold of IT resources when you need them in a resource-hungry world. Another issue is how a telco using the same software as others differentiates itself. Finally, there is a potential risk of something going wrong in the process of transferring from existing proprietary systems to off-the-shelf systems."

Yet Mr Owen thinks all these problems can be addressed. He says it is often a good idea that differentiates a telecoms operator rather than the underlying technology. For example, it is the idea of introducing a "Friends and Family" tariff that wins business rather than just having a billing system that can support it.

Mr Owen believes migration problems can be solved too – by running new and old systems in parallel for a month to make sure there are no glitches, then transferring to the new system and gradually refining it.

At present, the newer telecoms companies are most enthusiastic about buying third-party software. But established telcos are experimenting with off-the-shelf software for their newer services or for start-up companies in which they have stakes. Nick Williams, senior partner in the telecoms practice at Deloitte & Touche Consulting, says many telcos around the world are considering replacing proprietary financial systems with third-party enterprise software from SAP, Peoplesoft, Baan or Oracle.

These systems cost millions but sit on open platforms and can be integrated with data-warehouse and reporting software to provide details on churn (turnover of customers), failure rates and so on.

Other systems being bought from third parties include anti-fraud products, software for pre-paid services, mobile short message services (something similar to alpha-numeric paging) and home-location.

The open systems trend is also starting to affect telecoms equipment suppliers whose products are often proprietary and incompatible with those of rivals. In the US, AT&T is believed to be using low-cost personal computer-based equipment from Arbinet for its World-Net (low-cost international call) services in Japan and South America.

Arbinet's telecoms switch, based on standard Power PC chips, Unix operating software and Dialogic's computer telephony boards, can handle tandem and multi-node switching.

Alex Mashinksy of New York-based Arbinet, believes Arbinet and Dialogic are going to do to the large switch vendors what Microsoft and Intel did to the mainframe vendors. By the year 2005, predicts Mr Mashinksy, 80 per cent of calls will be on open platforms from Cisco, Arbinet and others.

Will the trend towards open systems continue? "There will be a rearguard action from IT managers in large telcos trying to protect their own jobs," says Mr Owen. "But I can't see any other way forward."

BILLING SYSTEMS • By Jola Shillingford

Key weapon in fight for market share

Convergent billing and hot billing are two of the advances to help operators solve problems – and boost revenue

Billing systems are becoming a key weapon in the fight for market share. But what do they need to be effective? Fraud-and-debt control, flexibility and the ability to handle large volumes of customers, according to Hubert Tardieu, head of telecoms strategy at computer services company Sema.

"Billing is a hot issue because of the level of fraud and debt in the mobile phone industry," says Mr Tardieu. "This is currently running at 5 to 10 per cent of revenues.

"Operators need billing systems which can help them keep these problems to a minimum. A good billing system will stop users from making calls when their bills are overdue. Instead, when they try to call, they will get through to a customer service representative who asks for their credit card number."

Flexible billing is needed by both fixed-line and mobile operators so they can introduce new tariffs quickly or respond to those of competitors. "Pricing and pricing formulas are changing more quickly," says Mr Tardieu.

Moreover, telecoms companies (telcos) are increasingly relying on value-added services to generate extra revenue and they need to be able to bill for these.

Corporate customers are also starting to demand bills that reflect the way they are organised. Businesses may want to be billed at the regional level or at the branch level, but they may still want a company-wide discount to apply. "Telcos cannot know in advance exactly how their customers will want to be billed, so they need a system that can adapt," comments Mr Tardieu.

Bob Hughes, head of billing programmes at UK telecoms company Energis, believes that being able to bill companies in the way they want to be billed (for example, by branch or with management information separate from bills) has helped the company win business.

In addition, the volume of subscribers a billing system can support is becoming important. "Until recently, mobile operators had 100,000 to 200,000 subscribers," says Mr Tardieu. "Many are now passing the half-million mark and will reach one or two million this year."

Other developments in billing include convergent billing, "hot billing", prepaid cards and customer care.

Convergent billing is where a single bill is provided for two or more services. Customers of Enertel in Holland will receive a single bill for fixed telephony and mobile services if the company's bid for a GSM licence is successful.

A flexible billing system will enable cross-marketing offers to be made.

"A telco could offer a discount on mobile use to a customer who spends over £100 on fixed-phone calls," says Martin Morgan, European marketing manager of US-based billing company Saville.

Saville, which supplies Enertel, is currently putting in a system for EnergyOne in Philadelphia which will send out one utilities bill for gas, water and telecoms.

Mr Morgan believes convergent billing is going to become more important as telecoms and media companies converge, with customers wanting a single bill for, say, television, phone and Internet access.

So-called hot billing (or real-time billing) is another hot topic in billing systems. "With hot billing you can get a bill straight away if you go to Paris and rent a mobile phone for the day," says Mr Tardieu. "Or you can phone up your UK supplier and change to a different tariff, or get overseas coverage added instantly before going abroad."

Hot billing can also be used in conjunction with intelligent network services to control the use of pre-paid Global System for Mobile (GSM) cards. Sema is working with Ericsson on a system to cut off callers with pre-paid cards when their number of units runs out. Wider use of pre-paid services will help reduce bad debt.

Billing systems are set for rapid growth. New operators moving into the market post-liberalisation need billing systems. And 50 per cent of telecoms operators will replace their existing systems within five years, according to billing specialists Chorleywood Consultants.

Chorleywood estimates that the market for customer care and billing systems for fixed and mobile telephony will grow from $18.173bn worldwide in 1998 to $23.927bn by the year 2000.

This is good business for billing systems suppliers such as LHS, Kenan, Sema, American Management Systems (AMS), Saville and Kingston-SCL. Systems integrators such as EDS, Cap Gemini and Anderson Consulting also get involved in billing systems projects.

Three developments which will gain in importance in billing are systems to manage churn, the Internet and customer care.

Comcast Cellular Communications of the US is, for example, testing products from Cincinnatti Bell which promise to detect (from usage patterns) when a customer is about to stop using its services.

Mr Tardieu believes that in future customers will increasingly use the Internet to buy services or change tariff packages. He says: "They will be able to find out more about their customers and target services more precisely."

Customer care will also be linked more closely with billing. "We have not seen the full capabilities of customer care in action," says Mr Tardieu.

"Often, the invoice is the only channel of communication between the operator and his customer. But in principle users do not mind if the person handling their bill does some marketing."

CELLULAR NETWORK COVERAGE • By Richard Handford

Network priorities have changed

Cellular operators have switched their focus from location to capacity in their drive to gain market share

There is an old mantra in Europe's mobile communications industry that an operator needs three things to succeed: coverage, coverage and coverage. However, the type of network coverage that cellular operators must provide their customers is changing.

Historically, cellular operators have driven towards providing a network that will serve 90-95 per cent of national population, a target that most longer-established operators have now met.

Failure to provide coverage up to this kind of level can be disastrous in marketing terms as UK cellular operator One-2-One found out when its 1993 launch covered only London and the south-east of England, equivalent to only 25 per cent of the country's population.

Although most customers tend to use their phones in a limited area around their work and home, they enjoy the perception of having national coverage. One-2-One has since altered its strategy and now has comparable coverage to its three rivals in the UK market.

However, now the priority has changed, according to Jim Sloane, head of Deloitte Consulting's telecommunications practice. "The issue is not coverage, it is capacity," he says. "The objective now is to back-fill those areas where there is a need for density of coverage."

Mr Sloane and other industry observers argue that geographic coverage can no longer be used by operators to differentiate themselves significantly from their competitors.

Instead, they are going back through their networks, usually in their most popular urban markets, installing more capacity often through the use of innovative microcellular technology.

By increasing capacity and filling in gaps in areas where their networks are already present, cellular operators can gain competitive advantage in two ways.

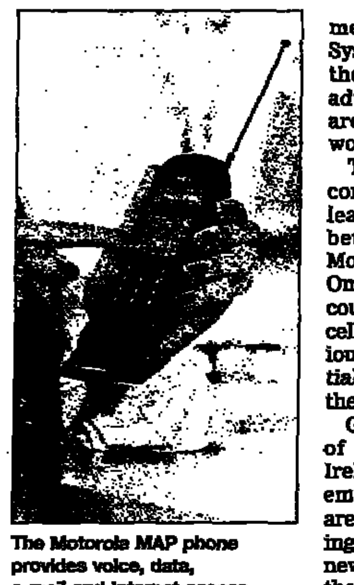
Firstly, they cut the number of dropped calls and let customers make calls where previously it was not possible, for example in lifts, underground stations and buildings not already covered.

Secondly, the extra capacity enables them to boost the range of services on offer.

Operators are proposing to expand their services from merely voice communication to include a range of broader bandwidth services such as data, fax, electronic mail and some form of limited internet access. By offering such services, cellular operators could squeeze more revenue out of their existing customers who, almost unanimously, currently use their cellular phones only for making phone calls.

In addition, such a diversification will put cellular operators in a position to compete head-on with fixed network operators as, is widely predicted, the two previously separate markets converge over the next few years.

It will also provide a new source of revenue for operators which see their prices being gradually eroded as cellular phones become increasingly a consumer product.



The Motorola MAP phone provides voice, data, e-mail and internet access

Some cellular operators, however, are facing a different challenge in how they deploy their networks. These are the newest operators, the third or even fourth companies licensed by European governments, that enter a market where 10-20 per cent of the population are already cellular phone owners.

Governments must give a leg-up to such new players or they will not commit to entering the market and drive down prices by introducing more competition. The solution found by many countries is to allow them to piggyback on the networks of the existing operators.

"It's big issue is the extent to which new cellular operators should be allowed to roam onto incumbent operators' networks," says Terry Rhodes, business development director of Mobile Systems International (MSI), the UK consultancy which advises cellular operators around the world on network roll-out.

This has been a hugely contentious point in Italy leading to court action between Telecom Italia Mobile (TIM) and newcomer Omnitel, which is in fact the country's second, not third, cellular operator but for various reasons is allowed initially to offer its service over the TIM network.

Governments in a number of countries including Ireland, Netherlands, Luxembourg and Switzerland are in the process of awarding licences that will allow newcomers to pay to access their older rivals' networks. This will allow them to offer a comparable service from launch rather than having to spend years matching their rivals.

"Governments have to seek a balance," says Mr Rhodes. "Will new competitors come into the market at all if they have to start from scratch? The alternative is to give the newcomers' radio frequencies to existing operators."

The compromise appears to be to set a time limit on how long roaming arrangements can last for a newcomer – generally about two to three years – before they have to switch over to their own networks.

All operators, both new and incumbent, also face an even bigger challenge looming before them in how they provide what is described as "third generation" cellular networks, also known as UMTS (Universal Mobile Telecommunications System). Third generation systems will have to take ubiquity and quality of coverage for granted.

Such systems will allow cellular operators to offer even higher bandwidth-type services and bring them further into competition with fixed networks.

The type of services envisaged in cellular's third generation include enhanced Internet access and video services, which will be offered alongside, or mixed together with, existing services.

How operators implement such services will be a big test. "They will have to do what they are not doing now. They will have to be more application rather than technology focused," says Mr Sloan. "That's quite a challenge."

THE SUPPLIERS • By Ray Hearn

A great deal of optimism

Many suppliers are coping quite well with the challenges of rapidly falling prices and margins

It is generally agreed that telecommunications deregulation has appeared to be very good news. It has meant more and more competition, with extra operators entering the market place and a subsequent downward pressure on tariff prices.

But while this has been excellent news for the domestic consumer, it has meant that suppliers have had to face some of the consequences. The scenario has to be written into budgets not just for this year, but well into the future. So how well are they coping? Large-scale cutbacks? Slashed research and development budgets?

Surprisingly, there is a great deal of optimism, and many suppliers are meeting the challenge. Plans have to be rescheduled, and there is anxiety, but that is all part of any business.

Nick Du Feu, a director of Newbridge Network, which has BT and Energis among its clients, knows what it means to be at the sharp end. "Starting with a turnover of £120m in 1996, we have had to cope with a 4-5 per cent price drop year on year.

"We have been able to meet this by taking a hard look at our product and delivering a cheaper way with the same capability, and because technology has been advancing so fast.

"It has meant a respinning of our products. For example, perhaps something which once we would get into a space of say six inches square, we can now get into an area of two inches square."

Mark Attan of Deloitte Consultancies, whose clients include several telecoms companies, said that one way the suppliers were coping with the downward price spiral was by restructuring contracts with operators, which meant there was a greater cash risk for them.

It could also mean that a large contract could have more problems concerning cash flow than had previously been the norm.

He thought there would be some casualties but he was generally upbeat about the future. Despite today's problems, he thought there was going to be more than enough to go round, and smaller price margins might not necessarily mean smaller profits.

"We have managed to restructure our production, without changing our level of functionality.

"We see this 5 per cent downward spiral continuing certainly this year, and we have accepted it for the next few years." he said. It was possible that some "consolidation" would take place among the suppliers as these conditions continued.

However, the prospect of cut-backs and redundancies does not appear to be widespread.

Robert Spaulding of Nortel said he thought there was likely to be sufficient expansion in the future to offset any kind of problems due to price pressure. "We produce five different types of networks, and yes, we have to admit there is price pressure, but the continuing revolution in the telecommunications industry means we can be very optimistic about the future. By the year 2,000, we aim to have 2,000 networks in place."

Nortel's approach to present difficulties was similar to Newbridge's "only I wouldn't call it product restructuring – I much prefer to use the phrase product improvement. What we will be giving is more space for your bucks."

Mr Spaulding cited the mobile phone industry where there had been a phenomenal 50 per cent growth. "Can we really be pessimistic dealing with something like that?

"Our company does not feel that we are anywhere near hitting anything like the panic button – in fact, cut-backs, redundancies etc could not be further from our thoughts.

"If anything, we are going in the opposite direction. For example, in Montreal we recently recruited nearly 5,000 people. This all bears out the feelings that I have expressed."

The feel-good factor is strongly in evidence here, and there is no sign of it disappearing just yet.

ISDN • By Geoff Nairn

Frustrated Internet users switch to high-speed links

Telephone companies have long been looking for a 'killer application' to make ISDN a commercial success. Internet access looks promising

After a decade waiting in the wings, ISDN has finally emerged as a mainstream technology for linking computers and networks, thanks to greater availability, lower costs and, most recently, keen interest from Internet users.

Telephone companies built the first Integrated Services Digital Networks in the late 1980s when computers had primitive communications and the Internet was a well-kept secret. Since then, computers have become a lot better connected, both inside offices, via local area networks (Lans), and externally.

The original ISDN applications – security back-up and overflow capacity for leased lines – are giving way to new ones including Internet access, remote Lan connection for teleworkers and branch offices, videoconferencing and Lan to Lan interconnection. For these applications, ISDN's biggest advantage is that it offers clearer connections and data speeds up to four times faster than the "plain ordinary telephone system" or "Pots", while call charges are typically the same. This explains ISDN's current popularity with Internet users frustrated by the slow speeds and unreliability of their Pots connection.

Telephone companies have long been looking for a "killer application" to make ISDN a commercial success and Internet access looks a promising candidate.

France Telecom was an early enthusiast of ISDN and after a slow start, its service, branded Numeris, is growing in popularity. At the end of 1997, the French operator had installed more than 2.5m Numeris "channels" with the number of channels growing at 75 per cent a year.

ISDN has traditionally been popular in niche business applications – the printing industry uses ISDN widely to transfer large files – but France Telecom says the fast-growing Internet access market has helped bring its Numeris service to a much broader range of customers, including residential users who traditionally had little need for ISDN.

To stimulate this new market, the French carrier recently introduced special tariffs for Internet surfers who use Numeris. For a monthly subscription of FFr45, Numeris users get a 35 per cent discount on Internet calls made during the day. A similar plan, costing just FFr10 a month, gives dedicated surfers a 40 per cent discount but their calls must be made after 10pm. France Telecom has also partnered with Microsoft to jointly promote Numeris. The Windows 98 and Windows NT 5 operating systems will include components to make it easier for French PC users to connect to Numeris.

ISDN users frequently complain of problems in configuring their computers and other hardware to work reliably with ISDN networks.

Germany's Deutsche Telekom has also introduced rebates to promote its ISDN service, Europe's largest and oldest. Bosch Telecom, a leading German supplier of ISDN equipment, recently set up in the UK with high hopes of repeating the success achieved in its home market. However, the UK market has not lived up to the expectations of Bosch and other ISDN equipment suppliers who complain that BT, the dominant UK carrier, charges too much for its ISDN service.

ISDN revenues
Projected totals, Ecu m

	1997	2006
Germany	7458	14447
France	2121	5219
UK	2611	8665
Switz.	755	1776
Italy	685	5994
Spain	246	3038
Total western Europe	14797	51468

Source: OT Research

"I am sitting in the most competitive telecoms market in Europe but I cannot use ISDN because it is too expensive," says Martin Wiegmann, a UK-based manager with Bosch Telecom. France Telecom charges FFr675 (about £67.50) to install a Numeris line and the monthly rental is FFr174 (£17.40). BT's traditional ISDN plan comprises a connection charge of £400 with a monthly rental of £28.

Because of frequent criticism of its high connection charge, 1996 BT introduced several new ISDN tariffs in 1996. These offer lower connection charges – the cheapest is £199 – and an allowance of "free" calls in return for correspondingly higher rentals.

Mark Bullock, BT manager for ISDN products, says BT cannot offer the same level of ISDN discounts as its continental European counterparts because it is obliged by the UK's regulatory environment to recover the full economic cost of installing ISDN. "In these other countries, the carriers are cross-subsidising," he claims. "Their installation and rental charges are much cheaper but their [time-based] call charges are much higher," he claims.

BT also fears that if it lowers its installation charge, users may come to BT for the ISDN connection only to pass all their ISDN calls through one of BT's competitors. According to Mr Bullock this has already happened as BT has a 96 per cent share of the ISDN lines installed in the UK but gets less than 80 per cent of ISDN call traffic.

ISDN cards for PCs, like much ISDN equipment, used to be expensive and suffer from incompatibility problems, while ISDN networks were limited to the biggest cities in a few countries. But in the past four years availability has improved, technical standards have converged and prices have dropped.

According to the Gartner Group consultancy, ISDN is today widely available in Europe – the US has been surprisingly slow to embrace it – and as fixed costs and usage charges continue to fall steadily, a new generation of applications is emerging that will increase ISDN usage dramatically.

One such application is "remote access", in which teleworkers and workers in small offices can connect to their head office networks using an ISDN link and a device called a router. Once connected, they enjoy the same high-speed access as their head office colleagues.

France Telecom says nearly a quarter of its ISDN lines are now used for linking remote offices or teleworkers into corporate networks. However, the Gartner Group cautions that the demand for bandwidth from these remote users is growing fast and will soon surpass that available with an ISDN Basic Rate connection – 128 kilobits a second.

This same problem could soon hit the Internet market. Nascent technologies such as cable modems and asymmetrical digital subscriber line (ASDL) promise to bring Internet access at higher speeds and the window of opportunity for ISDN is closing fast.

SHD CASE STUDY SPT Telecom

Czechs have invested heavily

The Czech Republic is building what it hopes will become the most advanced and reliable telecommunications network in eastern Europe, employing synchronous digital hierarchy (SDH) technology.

SPT Telecom, the national telecoms operator of the Czech Republic, was convinced of the benefits of SDH and has invested very heavily in it in its drive to become recognised as having the best network in the region.

Privatised in 1993, SPT has formed a partnership with the Dutch and Swiss national operators. They hold about 27 per cent of the shares in SPT and contribute to its management team as well as providing technological expertise.

They have helped SPT to launch an ambitious modernisation programme which is claimed to be building the biggest and best SDH network in the region.

When it was privatised, SPT had an old and entirely analog network, so it was able to leapfrog the first generation of digital technology and go straight to the second. "We had in fact to build a completely new network using digital technology," says Petr Nemec, SPT's director of planning and strategy.

He says it was easy to decide on SDH rather than its main digital rival, the older PDH (Plesiosynchronous Digital Hierarchy) system.

PDH lacks the some of the re-configurability features of SDH that can make network management much easier and enable SDH to cope better with a fast-rising volume of traffic. The Czech company decided to move wholly to SDH from the start of its renovation programme.

The project began with installing SDH in the network backbone and has now moved on to adopting it for network management and fault location. This is where the biggest benefits will come from, says Mr Nemec.

"Not only will it be a big cost-saving but it will give us a much more reliable network," he says.

SPT inherited some big problems from the old state-run network, with its poorly maintained copper cables and in consequence poor quality lines and very frequent breakdowns. There was a queue of 800,000 people waiting to have a phone installed.

The waiting list is now down to 400,000 and the government's target is for SPT to complete the network and eliminate the waiting list altogether by the year 2000. The network supported 1.6m lines in 1993. By the end of this year it should rise to 3.8m lines and by 2000 to about 4.5m.

Mr Nemec says they will be able to achieve these aims because SDH makes it much easier to deploy the new network quickly and it becomes operational almost immediately.

The national network backbone will be 90 per cent complete by the end of this year and SDH will begin to be installed in regional and sub-regional networks and possibly also in parts of the local access system.

The final design of the network will be determined largely by its largest customers, the government departments, banks and multinational companies based in Prague and Brno, which are keen to get new broadband and Internet services.

SPT has invested about Kč30bn a year for the past three years in constructing the core of the new network, of which SDH technology makes up about a sixth. The SDH systems have been supplied by GPT of the UK and Lucent Technologies of the US. About 80 per cent has come from GPT, the telecoms equipment manufacturer formerly known as GEC Plessey Telecom, in which the German engineering conglomerate Siemens is a shareholder, while the rest is supplied by Lucent, formerly a part of AT&T.

SPT is now planning the next phase of the development and intends to make a further commitment to installing SDH in the rest of the network over the next two to three years. Stefan Kindt, European regional business director for GPT, says the Czech network could become the regional telecoms hub and the principal gateway between western and eastern Europe.

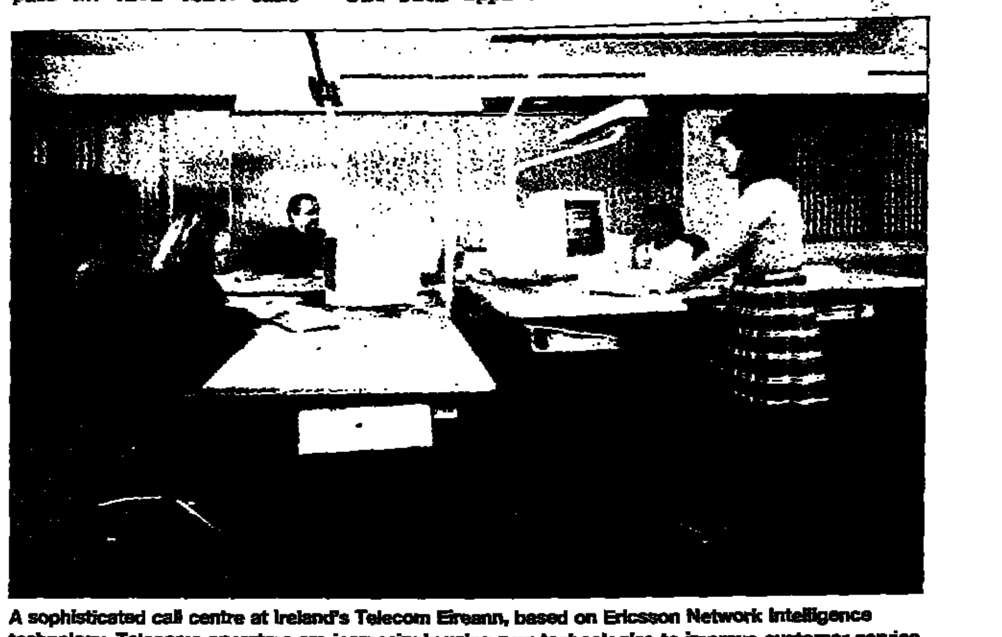
The Czech Republic has been more heavily committed to SDH than other east European countries, with the possible exception of Hungary.

Poland, although a much bigger country, has so far invested less in modernising its network with SDH than the Czech Republic. However, industrial change is taking place rapidly there and investment in the infrastructure is likely to increase substantially in the near future.

Hungary began to move to SDH earlier than the Czech Republic and has put a lot of investment into its network. It has support from Deutsche Telekom, which took a stake in its business.

But the Czechs believe they are at present ahead of the others in developing their network and can win the race. The outcome should become clear in the next year or two.

George Black



A sophisticated call centre at Ireland's Telecom Eireann, based on Ericsson Network Intelligence technology. Telecoms operators are increasingly using new technologies to improve customer service

CUSTOMER CARE • By George Black

Competition has improved quality

In the liberalised environment the main conflict will be centred on prices, but the quality of services may be almost as important

As liberalisation produces more competition among network operators, looking after customers better becomes a key issue in their business.

State-run monopolies were frequently characterised by indifference to the customer, particularly the small customer, which was reflected in long waiting lists to get phones, high prices, slow repairs and lack of responsiveness to public inquiries. The world of open competition should, in theory at least, overcome these problems.

Competition has improved the quality of service in the UK in the 10 years since it was introduced. But regional differences are huge. In London, users have a wide range of suppliers and competition generally means high standards of service. But in some remote country areas there is still little competition and service is often lacking.

Price will be the main battleground in the liberalised environment, but quality of service may be almost as important. Although domestic users will choose an operator mainly on price, business users, for whom communications are crucial, may be willing to pay more for superior service.

More than half of the telephone managers surveyed recently by the UK Telecommunications Managers Association said quality of service was the most important factor in choosing a supplier. The proportion was up to 57 per cent from 43 per cent in the previous year's survey.

However, managers did not rate their suppliers highly on this criterion. International operators scored particularly poorly. Users complain that suppliers do not meet their business needs. Dissatisfaction has grown significantly and many users feel they are spending money on technology that does not solve their problems.

However, Albert Lee, the TMA's director of quality, says that some of the dissatisfaction can be put down to rising expectations rather than deteriorating service. He says that new entrants are setting higher standards than incumbents, especially in being more outward-looking. "Older operators tend to think of customer service mainly as a matter of network performance and to overlook some of the customer-facing aspects."

Understandable pricing schemes and bills which are easy to read are things which the customer values but operators often do not provide, he says.

One way that telecoms operators are trying to improve is through increased use of call centres, both to sell services and to try to ensure that their customers are happy.

Every UK domestic customer of BT has been promised a call from a call centre once a quarter to check whether service has been satisfactory and inform him or her about changes in tariffs.

Orange, the UK mobile operator, is well rated by its customers, despite the continuing unreliability of connections on all mobile networks. This positive image may be partly attributed to its emphasis on customer support.

Last year it introduced "welcome" calls for all new customers to ensure that they understand how the service works and forestall early query calls.

The efficiency of call centres may be crucial in improving an operator's image. Andrew Glover, group director of customer services for Orange, says it now resolves 75 per cent of queries on the first call.

The speed of response to customers' phone calls is an important element of a company's public image and of customer satisfaction.

Per Jomer, a vice-president of telecoms equipment supplier Ericsson, argues that intelligent networks can contribute substantially to customer care, for operators as much as other companies.

He says that "virtual" call centres equipped with dynamic routing systems should enable all calls to be answered by a suitable person almost instantly.

If one centre is fully occupied, calls can be switched automatically to another centre, even in another country, without any noticeable delay.

Mr Glover says that investment in training is just as important as modern technology. Orange's call centre operatives receive five weeks of initial training and four weeks of in-service training in a year. But he acknowledges that with the extraordinary growth of the mobile industry it has been a struggle to produce enough experienced people to respond to customers' queries.

How an operator reacts in the event of trouble is also very important in creating a good reputation. A line fault may happen only rarely, but the operator may be judged on its performance on this occasion and the user might decide on that basis whether to stay with that operator or switch to another.

Summer thunderstorms in south London last year broke many thousands of lines and caused an abnormally high number of calls for help to BT, forcing it to bring in engineers from distant areas to help out. In this situation the ability to diagnose exactly where the breaks had occurred and get engineers to repair them promptly was critical in minimising the damage to BT's business.

Software lies at the heart of this struggle between the operators to achieve the best service.

Geographical information systems which show the layout and status of lines are essential for the diagnosis and repair operation. Call handling, databases and computer-telephony integration systems are the tools which operators employ in their call centres to try to differentiate themselves from the competition.

Interactive voice response systems are spreading rapidly but are usually badly deployed, so that often it seems it is getting harder instead of easier to get help.

"Generically, IVR systems are hated," says Mr Glover. "Customers perceive them as the company's barrier against inquiries." But he notes that IVR is by far the most effective way to handle large numbers of identical calls, such as mobile users wanting to know how much free airtime they have left on their account.

The Internet may become another important tool in the operators' contest for customers. Up to now their Web sites have been mainly confined to giving information and advertising services.

However, it will probably be interactive functionality which will differentiate their service. Operators will before long start to offer customers services such as bill payment and helpdesk support via the Web site.

SDH OVERVIEW • By Geoff Nairn

Tailor-made for the digital age

SDH networks are aimed mainly at large businesses with mission-critical applications. But the technology will eventually become cost-effective for small and medium-sized enterprises

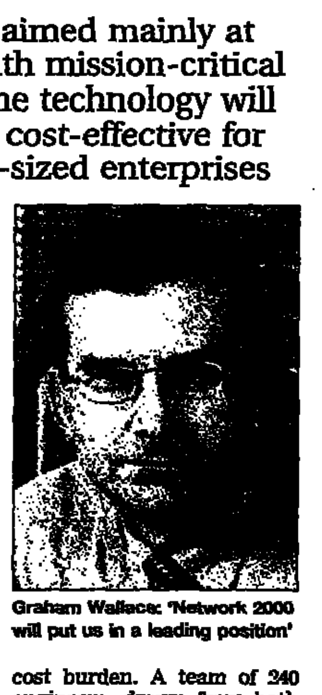
Synchronous digital hierarchy (SDH) is the unwieldy acronym behind some of the most ambitious developments in today's telecoms industry, with operators old and new turning to SDH technology to handle dramatic growth in network traffic and offer new data services.

SDH is a set of standards for the digital transmission of high-bandwidth traffic over optical fibre and it has already largely supplanted an older technology, called plesiochronous digital hierarchy (PDH), in the "backbone" networks of most network operators.

According to Ovum, the UK consultancy, PDH networks are more difficult to manage and are relatively inflexible, making them unsuitable for the provision of increasingly sophisticated services. SDH – known as Sonet in North America – overcomes the drawbacks of PDH and while more costly than PDH it is rapidly becoming the network transmission technology of choice for both established and new operators competing in liberalised markets.

"The move from PDH to full SDH deployment is inevitable," says Barry Flanigan, an Ovum consultant, in a recent report on SDH. "It can be put off by a telco [telecoms company] but not avoided. SDH is essential to gaining competitive advantage."

British carrier Cable & Wireless Communications recently announced plans to spend £400m on a national optical fibre backbone based on SDH technology. Northern Telecom (Nortel), the Canadian manufacturer, will supply SDH equipment to CWC and share some of the cost burden. A team of 240 engineers, drawn from both companies, will build the network over the next three years.



Graham Wallace: 'Network 2000 will put us in a leading position'

Racal Telecom is upgrading its network, based on 5,700km of fibre running alongside the nation's railways, to offer ATM over SDH

CWC was formed from the merger of Mercury, the original competitor to BT in the UK market, and several local cable operators. When Mercury started operations in the 1980s, it constructed an all-fibre digital network that was the envy of BT. However, the Mercury network is now showing its age and so CWC has embarked on its ambitious SDH expansion plan, called Network 2000, in a bid to restore its technological leadership in the highly competitive UK telecoms market.

"Network 2000 will put us in a leading position to supply advanced services to major corporate customers and telecommunications operators in the most cost-effective way," says Graham Wallace, chief executive of CWC.

Data traffic is the fastest-growing part of the telecoms market and SDH offers network operators the flexibility to carry different types of data traffic at high speed over a fibre optic backbone. The older PDH technology is not so good at handling data channels of varying sizes because it was designed primarily for carrying voice traffic using fixed-size channels.

"Nobody that is developing a network these days would consider using PDH," says Alistair Henderson, head of technology at Energis, one of the new entrants in the UK telecoms market. The company claims to be the only UK carrier with a network based exclusively on SDH technology, again supplied by Nortel.

In Mr Henderson's view, this gives Energis an advantage over carriers that have implemented SDH piecemeal on stretches of their network carrying the heaviest traffic – the approach traditionally taken by large established carriers.

"If you mix the old with the new, you do not get the benefits of end-to-end traffic control or the flexibility," he says.

The network management capabilities of SDH enable end-to-end monitoring so that failures in the fibre optic link are detected immediately. This is of increasing importance as operators seek to push the data carrying capacity of fibre ever higher.

Each cable in the Energis backbone consists of a bundle of 12 fibres and each fibre carries 2.5 gigabits a second. Nortel will this year upgrade its SDH technology and push the bandwidth to 10 gigabits a second.

Network operators have to plan for the nightmare scenario in which a road digger severs one of these backbone links and takes out a principal artery of their communications network.

SDH makes this task easier with a concept known as "self-healing rings" which allows the network to automatically reconfigure itself so that traffic is rerouted away from the faulty link. This translates into less disruption to services and a reduced management and maintenance burden for the operators.

"SDH can reduce the number of people needed to manage networks by a factor of ten," claims Ken Edmonds, head of Nortel's SDH operations. "For a new operator, that is a lot of people that you do not have to employ."

SDH is a technology tailor-made for today's digital age because it can support a wide range of networking services such as videoconferencing, Internet access, or supporting private networks based on asynchronous transmission mode (ATM) technology.

Racal Telecom, another new UK operator, says bandwidth needs on its network are growing at 30 per cent a year, due mainly to the proliferation of data-intensive applications running over corporate networks.

It is upgrading its network, based on 5,700km of fibre running alongside the nation's railways, to offer ATM over SDH in 350 business centres.

German new entrant Vebacom is building a "green field" network using ATM running on top of an SDH backbone, and a clutch of other new companies are taking advantage of European liberalisation to build state-of-the-art SDH networks aimed at the lucrative business market.

As corporate appetites for data grows, analysts note a new trend to push SDH out from the backbone into the access networks. This allows carriers to deliver SDH directly to the "doorstep", offering businesses a dedicated SDH link over resilient connections that are managed end-to-end by the carrier.

Today, these networks are aimed mainly at large businesses with mission-critical applications. However, operators see SDH ultimately becoming cost-effective for small and medium-sized enterprises for applications such as Internet access and teleworking.

A few years ago, no one could have foreseen that businesses would need the high bandwidth offered by SDH. "But today there is a lot more interest than you might imagine and bandwidth needs are going up very quickly," says Mr Edmonds.

PREPAID SERVICES • By Jola Shillingford

New services boost take-up

Prepaid cards for mobiles appeal to network operators because they help them reach new customers while reducing bad debt and fraud

Prepaid telephone services are reaching new customers. But do they benefit business?

The market for prepaid services has gained a higher profile following the spread of prepaid cards for mobiles. They have been particularly popular in Italy and South Africa. In South America, one GSM (Global System for Mobile) operator will sell its service solely through prepaid cards.

Martin Roberts, business development manager of UK-based Telsis, says: "The US market is way ahead, but prepaid has taken off in Europe in the last six to nine months." New tariffs and services are boosting take-up.

Mr Roberts says: "Usage of One2One's "Up 2 You" service was up eight-fold on Christmas Day as people unwrapped their prepaid presents."

In November, Vodafone introduced new prepaid tariffs called "Pay as you Talk". Users pay £99 to buy an analogue handset. Included in the package is one month's free access to the Vodafone network and a £15 prepaid card.

To use the mobile phone, the customer calls a hotline and gives the phone and PIN number. The first £15 can either be used entirely for calls. Or £7.50 of it can pay the next month's access.

Calls are 5p a minute off-peak and 60p a minute during peak call times – or 40p a minute at all times. And customers can change tariffs when they buy new cards. The customer keeps the same phone number provided not more than three months pass without the £7.50 monthly access charge being paid.

There are signs that the new tariffs are working. "Approximately 23.6 per cent of the new UK cellular subscribers signed up in the final quarter of 1997 were for the prepaid service," according to Dennis Exton, telecoms analyst at Nikko Europe.

Prepaid cards for mobiles appeal to network operators because they help them reach new customers while reducing the possibility of bad debt and fraud. They can, for example, be sold to developing countries where customers have no credit history. Or they can be sold to students or children.

Mobile phonemaker Ericsson estimates that there are 65m mobile phone subscribers worldwide and there will be 300m by the year 2001. It predicts that 30 to 60 per cent of these will be prepaid users.

For customers, the appeal of prepaid services is that they cannot run up huge bills by accident and they do not have to pay the monthly charges if they are going away somewhere outside the coverage zone. Hubert Tardieu, head of telecoms strategy at European software and services company Sema, says: "They are popular with employees who want to make some social calls on their work mobile."

Prepaid cards can be useful in the air. An Air-Land card can be used on GTE in-flight phones in Continental, United, Swissair and other airliners as well as in any US digital mobile or payphone.

Haan Wingate, a spokeswoman for GTE, says this means that a European arriving at, say, Chicago's O'Hara airport could rent a mobile, buy a prepaid card and use it for all calls on land, sea or in the air.

Using the card for in-flight calls cost $4 a minute (with no connection fee) and $0.33 on land. Katherine J. Harless, president of GTE Airfone, says the card suits "today's traveller" and "is easy to include in budget planning".

Take-up of standard prepaid cards for mobiles is more common among consumers. Mr Tardieu says this is because prepaid cards are typically a lot more expensive per call than standard mobile tariffs.

For users who do not have mobiles, prepaid phone cards (for example, from BT) provide a convenient but not necessarily a cheap way of paying for calls outside the home.

Yet cheaper cards are available. UK company First Telecom has a prepaid card which can be bought in CTN newsagents.

A UK national call from this card costs the same as a BT call from home.

In addition, prepaid cards can be badged by companies such as World Telecom for use as promotional devices to give to customers.

Prepaid accounts for fixed-line telephony are also growing fast. There are 30 or 40 companies offering such services in the UK, mostly resellers who buy bulk capacity cheaply on others' networks. Companies in this market include Swiftcall and First Telecom.

First Telecom has grown to 200,000 residential customers in just over three years and is adding 30,000 subscribers a week, according to Tim Hallac, the company's marketing manager.

Mr Hallac says consumers and sole traders are buying First Telecom's services because of the low prices it offers and because of the cost control it gives them. Calls to the US, for example, are 10 pence a minute.

Cost control is easier because customers can buy blocks of call time in units of as little as £10. To make a call, the customer simply prefixes the phone number with 1639. After the call, the customer only needs to press a button to find out how much it cost, which is useful if it is being allocated against a project.

And each time the phone is picked up, First Telecom tells the user how much credit is left. First Telecom is also pitching its service at small and medium-sized businesses with a post-paid option.

"The cost control element of prepaid is important to businesses, but cashflow is even more important," says Mr Hallac.

Orange's Just Talk Motorola mr201 prepaid mobile phone comes with a free 15-minute card. Subscribers can buy additional time by calling Orange and paying for their minutes by credit or debit card

APPLICATIONS Prepaid callers

Business surge is on the cards

Pre-paid services are proving very popular among consumers in the cellular phone market across Europe and there are signs that they are now being taken up by businesses, both for their cellular phones and their fixed telecoms services.

Customers who take a pre-paid service pay up front for using their cellular phone instead of waiting for monthly bills to come in. The customer tops up the account as and when they want to use the phone. Such services are aimed at customers who cannot afford, or do not want the commitment, of a full-time cellular service.

Pre-paid services have been something of a runaway success in Italy where Telecom Italia Mobile, the country's leading cellular operator, has more than 3m customers using its service. In the UK, progress has been more stately with the number of pre-paid customers currently standing at about 200,000.

Now, pre-paid services are spreading into the fixed telecoms market where this type of service is being sold on the basis that it offers cost savings over normal billing methods and as a more effective way for organisations to keep control over expenses. The attraction is mainly for smaller companies where keeping a handle on expenses is vital, particularly in their first few years.

One such small user is Dolphin Business Systems which takes its telephone service, and a pre-paid account, from UK reseller Oystel.

Dolphin sells office PABXs and data communications products and has been around for five years. It has only about six or seven people working for it and they travel between a number of sites in London and the south-east of England, including its headquarters in Wembley.

In addition, the company has an office in Copenhagen from which it sells similar products in the Danish market. Aside from standard fixed telephony, the company's employees frequently use mobile phones and payphones when they are on the move between their various sites and clients. The company has telephone bills of about £200-£300 a month.

Jason Berryman, managing director and part-owner of the company with one of its other directors, says there are two reasons why paying in advance is preferable to waiting for bills to arrive: "It is a lot cheaper and you keep control of costs," he says.

Oystel offers a significant discount to companies such as Dolphin which are prepared to pay in advance for their telephone bills. Mr Berryman points out that although the company does lose bank interest, this is outweighed by cost savings.

He adds that keeping a control on costs is also particularly important: "It's useful if we're putting in a large system that will involve spending every penny before we get the money back from the client. It's nice to know what your outgoings are."

By dialling an 0800 number and using a PIN number from their Orange cellular phones or a BT phone, Dolphin personnel can access the Oystel network for their calls. These calls are then covered by their pre-paid account.

Mr Berryman tops up the company's account when it runs low, but customers can also choose to have a direct debit. Users can set up the system so that it automatically informs them of the balance of their account every time they use the phone.

Another business customer using a pre-paid service is Mantax Radio Taxis, a Manchester taxi company which is using Orange cellular phones fitted with its Just Talk pre-paid cards to improve communication with its drivers.

Mantax, which claims to be the largest taxi company in the Manchester area, with more than 250 black cabs, is initially taking just four Orange phones but might buy more if the trial proves successful.

The company decided to try the phones after winning a contract to ferry senior staff members from British United Provident Association (Bupa) in two cabs bearing the private healthcare organisation's logo.

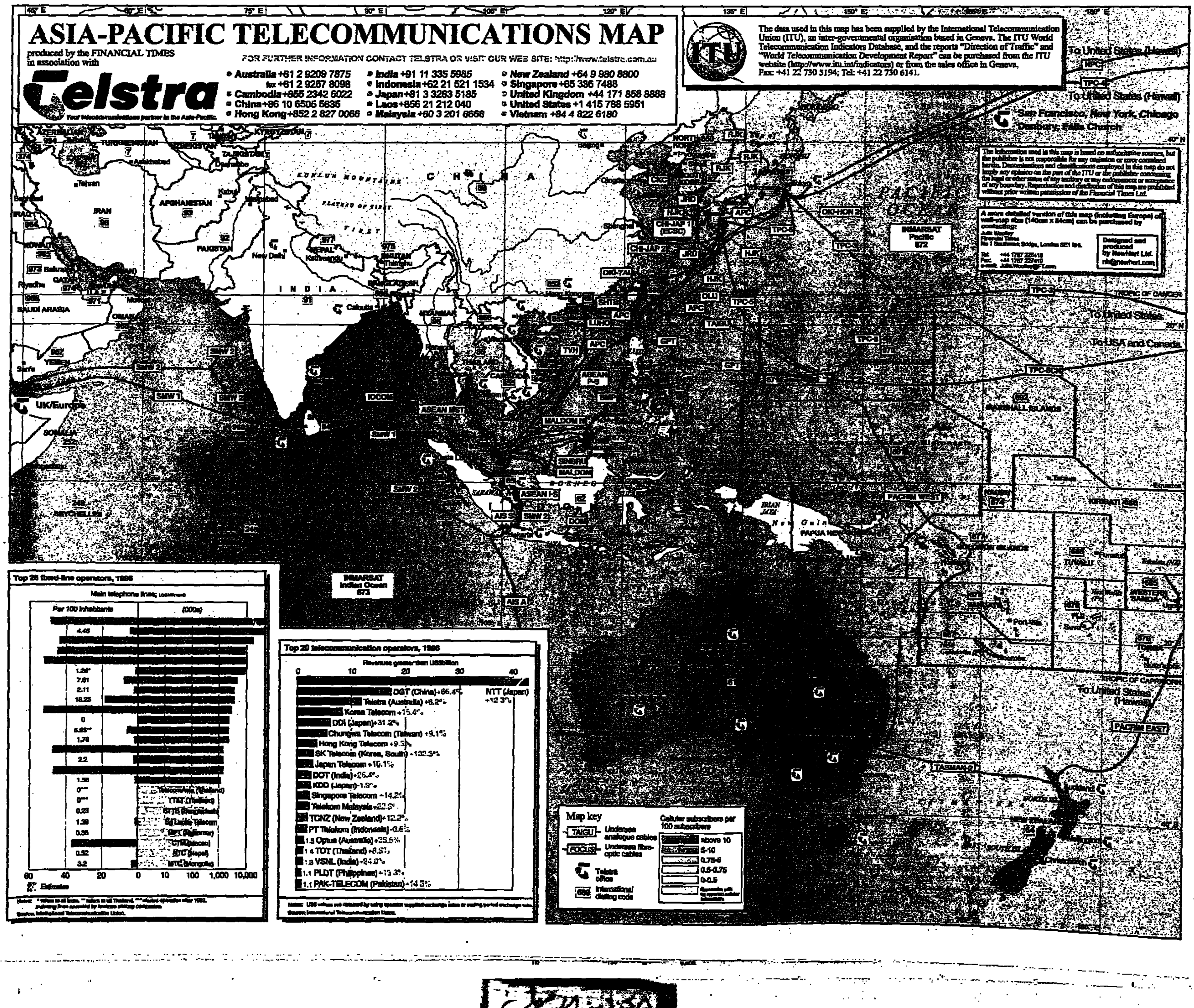
The Orange phones enhanced the service by enabling Mantax's drivers to be reached even when they are away from their cabs, which are all fitted with two-way radios. This way, Mantax hopes the drivers will not miss a pick-up of any Bupa personnel, thus optimising their level of service.

There are two reasons for taking the pre-paid service rather than another tariff packages on offer from Orange, says John Tabmer, Mantax's managing director.

Firstly, because it requires no contract, Just Talk enables the company to test whether the Orange phone suits their requirements. Otherwise, it would have to take a normal cellular tariff involving a 12-month contract.

Secondly, he says, a pre-paid service gives a predictable bill.

Richard Handford



EMERGING MARKET REPORT: THE PHILIPPINES • By Christopher Price

Bonus for telecoms groups

The outlook for the two groups appears rosy, but the government is committed to increasing competition, and has issued a rash of new licences

Philippine companies may have had little to cheer about during the past year as the regional economic crisis has taken its toll.

Yet for the country's two main listed domestic telecommunications groups, the turmoil has had an unexpected bonus, drawing investors in their droves in the hunt for defensive stocks and those with high overseas earnings.

The result has seen Philippine Long Distance Telephone (PLDT) and Digital Telecommunications (Digitel) strongly outperform the Manila stock market.

PLDT, the country's biggest provider of telecoms services, was one of 1997's best performing stocks as investors shifted out of property and banking shares on fears of the devaluation of the peso and concerns over the state of the Philippine property market. This year has seen an acceleration of this trend.

Digitel's attractions were less defensive and more focused on the group's reputation as one of the fastest growing telecoms groups. Its shares outperformed the market by 68 per cent last year and, like PLDT, have performed even more strongly in 1998.

With strong growth being forecast for the Philippine telecoms market, the outlook for the two groups appears rosy. However, while keen to develop the country's telecoms system, the government is also committed to increasing competition, with a rash of new licences recently granted.

Analysts are divided over how the two somewhat conflicting developments will affect the fortunes of PLDT and Digitel.

The Philippines has a relatively undeveloped telecoms infrastructure. Teledensity – the average number of telephone lines per 100 people – stood at 2.9 per cent at the end of 1996. This compares with 43 per cent in Korea, 7 per cent in Thailand and 1.8 per cent in Indonesia.

However, like many developing countries starting from such a low base, Philippine penetration is forecast to rise strongly.

ABN Amro, the stockbroking group, believes that teledensity will have risen to 6.5 per cent by the end of this year, reaching 9.7 per cent by 2002. The number of fixed lines, which stood at just over 2m at the end of 1996, is forecast to increase to almost 5m this year and 8m by 2002.

While operators' revenues will undoubtedly rise as this growth comes through, structural changes in the telecoms sector and increased competition are likely to play crucial roles in how the different companies fare.

In the first instance, declining international call rates are being offset, in the short-term at any rate, by rising domestic tariffs.

This has happened partly due to the US authorities' decision to reduce rates paid to foreign carriers for international calls from the US. ABN Amro calculates this has led to an 18 per cent fall in USPhilippine call tariffs.

Rates charged for outgoing international calls have also declined with competition, prompting PDLT and other operators to secure increases from the regulatory authorities in domestic charges.

Established operators have also expressed concern at the granting of a licence to Bell Telecommunications, which will result in the new group providing services in franchise areas previously allocated to one operator while the telecoms infrastructure is being built out.

International Communications Corporation, owned by Bayantel, has secured a similar licence. It intends to install and operate 140,000 lines in Manila and 10,000 lines in Navotas by the end of the year. These areas were previously assigned to Eastern Telecom alone, as well as PLDT.

Alvin Tan, Philippines telecoms analyst at ABN Amro, says Digitel is likely to prosper most from the different dynamics of the emerging market.

"Digitel's growth, which is twice that of the sector average, will be supported by the low teledensity in its franchise area, rising toll traffic and better revenue-sharing agreements with PLDT," he says.

In addition, the opening of a new international gateway facility and the rebalancing of the group's revenue stream following the changes to domestic and international tariffs will also help.

"Digitel will probably emerge as the Philippines' second-largest telecoms company and the biggest in its franchise area," says Mr Tan.

While PLDT's strong position – it has a 75 per cent share of the domestic market – is likely to see it benefit from the telecom sector's development, analysts have voiced concern over the group's high level of debt.

The devaluation of the peso last year raised the group's net debt-to-equity ratio from 106 per cent to 144 per cent between June and September. A rights issue is thought highly possible this year.

However, the weak Peso has also been a blessing for the group, which receives more than half of its revenues from international calls. Last month , the company reported annual net profits rose 18.7 per cent to 7.65bn pesos in spite of the economic downturn.

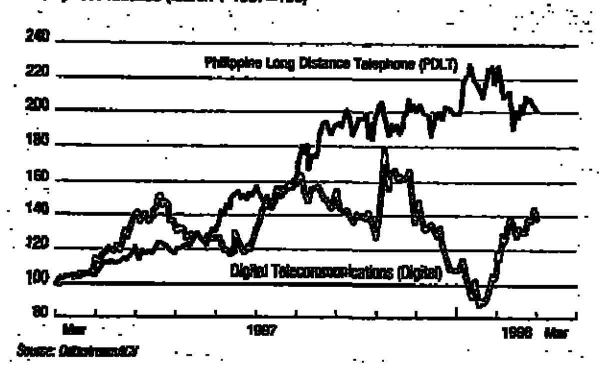
Unfortunately, the peso depreciation did few favours for Philippines' other main quoted operator, Pilipino Telephone Corp.

The country's second biggest cellular services group receives only 8 per cent of its revenues in non-peso currencies.

This has compounded a miserable two years for the company as it struggled to correct an overexpansion which led to inadequate credit checks and bad debts.

The hangover from this, involving the disconnection of tens of thousands of Pilipino customers, is likely to continue to undermine investor confidence in 1998.

Telecoms groups buck the trend
Share prices rebased (March 1 1997=100)



Source: Datastream/ICV

COMPANY IN THE NEWS: WorldCom • By Richard Waters in New York

Two views of takeover

US regulatory agencies reviewing WorldCom's offer for MCI are focusing on the possible effects on the Internet of such a merger

There are two very different views of what lies behind the world's biggest corporate takeover.

One holds that WorldCom's $37bn offer for MCI Communications represents an audacious raid on the Internet, an attempt to create a dominant carrier for what may one day form the core of the world's telecommunications infrastructure. The other: that the Internet still represents only a tiny piece of the telecoms business, and that the technological revolution that spawned it will move far too fast for any one company to control the course of events.

John Sidgmore, chief operating officer of WorldCom, says he is in no doubt about which of these is closer to the truth. The suggestion that a merger with MCI was conceived as a pre-emptive strike on the Internet is "ridiculous," he says. "It has nothing to do with the deal. We never considered the Internet."

But that has not stopped the issue from becoming central to the regulatory agencies charged with reviewing the bid. The Justice Department has asked rival carriers for more information to try to gauge the power of a merged WorldCom-MCI on the Internet, while the European Commission is carrying out its own study.

The concerns are voiced by Joseph Nacchio, chief executive of Qwest, a company which is in the process of building a nationwide fibre optic network of its own in the US. "If you create a bottleneck on the [Internet] backbone, it becomes a classic anti-trust issue that needs to be investigated," he says.

As Mr Nacchio and others see it, the question comes down to whether WorldCom will control enough of the traffic to have an undue say in the way Internet services are priced. This could affect both users who buy access to the Internet and rival carriers, which rely on interconnections with other companies to make this network of networks function.

A further concern, adds GTE, another big Internet carrier, is that a dominant WorldCom would have less incentive to maintain state-of-the-art links with other networks, because it would rely far less on them to carry its own traffic. That would eventually lead to a degradation in service and undermine the balance of mutual self-interest on which the Internet has thrived.

WorldCom's share of the Internet backbone in the US would be based on its consolidation of four different networks, the biggest of which are those of MCI and UUnet, a company WorldCom inherited with the purchase of MFS, which operates local networks in US and European cities.

According to most industry studies, these networks account for some 60 per cent of traffic carried over the Internet backbone – although WorldCom disputes such numbers, and says the true level of its influence is more accurately reflected in its 20 per cent share of revenues earned by all Internet service providers.

Also, it points out, other carriers are building rival fibre optic networks and adding the routers and other equipment they need to carry Internet traffic. With the market growing so fast, it will become even more difficult to dominate the Internet than it is now.

For Bernard Ebbers, chief executive of WorldCom, the fight over the Internet has become one more example of a daring business career that has had a habit of ruffling establishment feathers.

Carriers such as Bell Atlantic and GTE claim that other aspects of the acquisition of MCI, which is still awaiting regulatory approval in both the US and EC, could also pose potential threats to the balance of power in the US telecoms industry.

Bernard Ebbers: the fight over the Internet has become one more example of a daring business career that has frequently ruffled establishment feathers

WorldCom, for example, has a clear business aim: to provide a full package of end-to-end local, long-distance and Internet services to businesses operating in large cities. MCI, though also heavily skewed towards the business market, has also been a significant force in the residential market – something that is widely expected to end after the acquisition.

To established rival carriers, this represents a giant cream-skimming exercise that makes a mockery of the gradualist approach to telecoms deregulation taken by the US.

By concentrating on business customers, WorldCom would be avoiding the cross-subsidies in the system that have traditionally favoured residential callers.

Also, by assembling an end-to-end network rather than relying on rival carriers to complete its calls, it would escape many of the so-called access charges that act as a tax on the system. These charges in part support the requirement for the Baby Bells to provide a universal service, even in uneconomic areas.

Such a strategy, when adopted by a small carrier, would be merely an irritant. But, when pursued by a giant, critics claim that it could undermine the economics on which the deregulation of the industry is based and pose difficult public policy questions.

Typical of these attacks have been those of the Economic Policy Institute, a left-leaning Washington think tank. In a report for the Institute this month, Dan Schiller, an academic at the University of Southern California, claimed that the deal would "harm the nation's telecommunications system at exactly the moment when the health of that infrastructure is most important to the overall well-being of the economy."

By escaping many access charges, for instance, the company could undermine the step-by-step reduction in overall charges that has been planned by the Federal Communications Commission.

A combined WorldCom-MCI will have 25 per cent of the US long-distance market, about half the market share of AT&T, which currently pays access charges to complete virtually all of its calls.

To rub salt into the wound, WorldCom has also been helped by the regulatory stalemate that has so far kept the Baby Bells out of the long-distance market. This has given it extra breathing room to assemble its full-service networks before the competition for its core long-distance revenues becomes cut-throat.

Mr Ebbers, for his part, has insisted that the merger would advance the cause of competition, not hinder it. By continually reducing costs and bringing down prices, while also creating new services, WorldCom is leading the industry into the competitive era, not holding it back. Before prevailing with this view, though, he can expect to face some tough questions in the months ahead.

NEW PRODUCTS AND SERVICES • Compiled by Philip Sanders

Emergency multimedia

A new emergency system using Tetra (Terrestrial Trunked Radio) digital mobile radio to relay pictures from rescues and enabling Internet access and voice and data transfer is to be developed by Simoco, HW Communications and the Lake District Search and Mountain Rescue Association.

The system will make rescue missions safer and easier to co-ordinate while enabling faster medical assistance to be given to casualties. Rescue teams will use digital video cameras and medical monitoring equipment to feed back information on casualties in order to get immediate medical advice from the local accident and emergency department.

The system may also have applications in forestry, farming, the utilities, emergency services, construction, maintenance, mining and exploration.

Multimedia to the rescue: the system will make missions easier to co-ordinate while speeding up medical assistance to casualties

DIY telephony application kit

Kingston Voiceware has launched a Software Development Kit that allows users to design or amend telephony applications without incurring expensive development costs. It is aimed at end-users as well as software houses and developers, and is based on Windows NT.

Kingston, a leading UK supplier of voice processing and interactive voice response platforms, says the Openmk kit is simple to use, yet allows companies to design very sophisticated and wide-ranging applications – from simple call routing through to complex interactive voice response applications – in a matter of hours.

Wireless EFT terminal

A wireless electronic fund transfer (EFT) terminal was unveiled by French technology specialist Wavecom and French EFT specialists MoneyLine Group. The MoneyLine P2000 functions as an electronic purse and can be used to scan credit, debit, loyalty and health cards. It is hand-held and fully mobile.

It offers immediate security of payments for internationals, as well as French payment cards. For example, taxi drivers have previously been unwilling to accept foreign credit or debit cards will be able to carry a P2000 in the cab to obtain on-the-spot authorisation. The terminal can also be used to obtain payment for domestic repairs or for mobile delivery of goods, such as fuel.

Graphic pager

NEC's new APOP98 pager is able to receive graphic images – such as maps, graphs and pictures – and display them on its LCD. Graphic information is transmitted as a normal message which the pager then decodes into the appropriate image. The pager has only four buttons, for ease of use, and features 16 folders for filing messages.

Maximum performance

Maxxer, a software tool from Mobile System International (MSI), manages a wireless network's performance. Maxxer exploits a data warehousing concept which stores, refines and delivers performance information to all parts of an operator's organisation using web technology.

Conferencing competitor

Latitude Communications announced it had integrated its Meetingplace conference server with Microsoft's Netmeeting and other data conferencing products. Latitude offers a cost-effective and secure alternative to service bureaux conferencing. Credit Suisse, Bank of America, Microsoft and Hewlett-Packard are among leading companies who have adopted Latitude's conferencing technology.

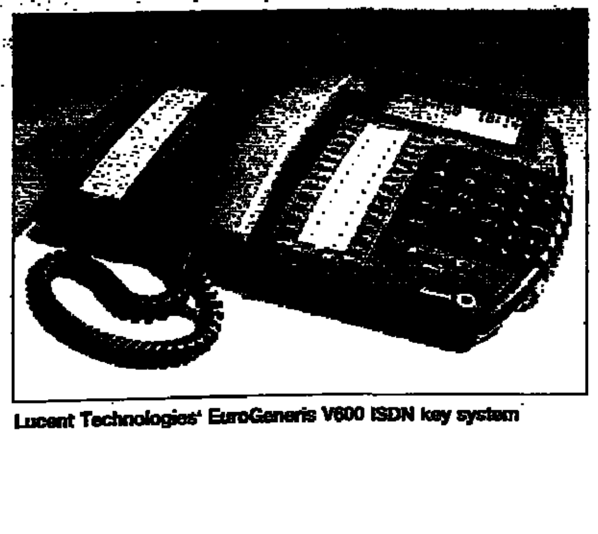
ISDN system for small businesses

Lucent Technologies launched a smarter version of its EuroGeneris ISDN key system, the V600, designed to meet the needs of small to medium-sized enterprises and combining PBX features with Euro ISDN connectivity. The EuroGeneris range now caters for users with four to 24 extensions up to an advanced system capable of supporting 20-128 extensions.

EuroGeneris is a modular telecoms system which allows SMEs to use standard voice and multimedia ISDN terminals to improve the quality and scope of communications with their customers. The V800 is based on a new central processing unit developed by Bell Labs.

MoneyLine's P2000 terminal

NEC's APOP98 pager



Lucent Technologies' EuroGeneris V600 ISDN key system

A round-up of the telecoms industry: **Joia Shillingford** takes a look at the news, reviews and forthcoming events

NEWS IN BRIEF

Racal system for Malaysia Games

Racal Messenger is to supply its advanced radio-based data network, Widanet, to Malaysian company Impianas which has a public-mobile network licence. Impianas will pay £3m for the supply of an initial 25 base stations, 3,000 radio pads, software licence and technical support.

Racal's Widanet is a packet data system, which provides access through radio into an X.25 network and enables data, such as on-line credit-debit card authorisations, to be transferred by radio rather than via telephone lines.

The equipment will be used to provide electronic payment during the Commonwealth Games in Malaysia in September.

Mobiles 'set to overtake'

"By 2002, mobiles will be the dominant device for voice telephony in the advanced world," predicts the Sema Group technology consultancy.

"While wireline is best for data, multimedia and Internet traffic, mobile offers the greatest benefits for simple voice traffic," it says.

Orange sponsors Academy Awards

Orange, the UK mobile phone company, is sponsoring the British Academy Awards to the tune of £1m. It is the first telephone service to become title sponsor for the awards, which are being split from those for television this year. It is also the British Association of Film and Television's 50th year.

More fax complaints

Icstis, the independent Committee for the Supervision of Standards of Telephone Information Services, whose new code of practice came into force on March 9, says complaints against premium-rate fax services now exceed those against premium-rate phone services.

In 1997, there were 950 complaints about fax services whereas in previous years, the maximum was 90-100, says Rob Dwight of Icstis.

Pre-paid services for Caribbean

In a joint bid with LHS Group, Logica has won a $3.8m contract to provide a billing system with pre-paid capability for French Caraïbe Mobiles (FCM).

FCM is a wholly-owned subsidiary of France Telecom Mobiles International, operating in the French Caribbean including Guadeloupe and Martinique. It is hoping that pre-paid services will boost customer subscriptions by 300 per cent in a year.

Lucent wins $30m wireless contract

Lucent Technologies announced a $30m contract with Telecel, a Portuguese mobile network operator. Under the terms of the contract, Lucent will provide wireless systems and installation services for Telecel's Global System for Mobile network.

Web access from Unwired Planet

Customers of Société Française du Radiotelephone will be able to connect to the Internet via a standard digital mobile, the cellular network operator has promised. It is planning to use software from US company Unwired Planet, in a trial this year.

BACKCHAT

Counting the costs of accounting the cost

Nearly half the operators in a survey did not know how much they paid to produce bills. Among those that did, there were huge variations in costs

How much does it cost to produce a phone bill? Surprisingly few telecoms companies know.

What is well known, says Caterina Carola of Chorleywood Consulting "is that the average cost of producing, issuing and delivering a bill in the telecommunications sector is 50 per cent higher than in the electricity, gas or financial sectors."

In a global survey of telcos, UK-based Chorleywood found that almost half (42 per cent) did not know their cost per bill, while another six per cent said the information was confidential.

This is partly explained by the complexity of billing for multiple services and tariff structures. But it does not explain the huge variations in billing costs for similar companies.

Independent consultant Frank Owen, says: "Some of Europe's former monopolies are paying $12.50 per person per bill per month, while in the US the same activity costs $2.50 per bill and in Asia it is approaching $1. How can anyone live with $12.50 a month?"

Of the 52 per cent of companies who knew their costs, figures given to Chorleywood vary from 28 cents per bill, up to $20 for a European data communications operator. No capital costs or depreciation of the original billing system were included.

The criteria for measuring costs was not strictly defined, but the 201 companies willing to divulge their costs were asked to rank their cost per bill as below $1, below $3, below $8 or above $8. Chorleywood found that:

- Operators where the average cost per bill is at the top of the scale are typically those with large corporate customers who receive very detailed bills.
- Mobile operators, especially those with digital services, have relatively high billing costs. Many of these were in the range of $5 per bill.

Likely reasons include the need for real-time billing to prevent fraud, the need to support roaming, and the need for more frequent billing.

- Many of the operators with a cost per bill of less than $1 were cable TV operators who often charge a flat rate each month with no usage charges.

Overall, 38 per cent of all telcos surveyed said that cost per bill was not an influence in their choice of billing system. A further 28 per cent said they did not know if it was a decisive factor. How could it be if they don't know what a bill should cost?

The billing process will get more efficient, however, as competition puts pressure on costs and as billing system suppliers look to charge by the bill.

TELECOMS FUTURES

New mobile radio standard

Tetra combines the benefits of digital cellular telephony with group calling, dispatch functions, push-to-talk and high-speed data

Tetra equipment from Nokia on field trials in Finland

A new standard for mobile radio, Trans-European Trunked Radio (Tetra), is coming soon to a truck near you. Dolphin Telecommunications (formerly TetraLink) plans to spend £200m on building a national Tetra network, with the first services available in early 1999.

By the end of 1999, the network should reach 90 per cent of the UK population.

Its Canadian owner, Telesystem International Wireless (TIW), intends to build a digital pan-European wireless network. The company is well-placed to do so having bought two mobile radio companies, the UK's NB3 and Germany's Terrafon Bundelfunk for a total of $90m last month.

As well as its UK Tetra licence, TIW has licences to build Tetra networks in France and Germany and should be making announcements shortly, according to David Henson, sales and marketing director at NB3.

TIW has awarded a £50m contract to Nokia for network infrastructure equipment including handsets for use in trucks.

Tetra, adopted by the European Telecommunications Standards Institute, has a number of advantages over digital mobile phones. Yves Marois, executive vice-president of TIW and president of specialised mobile radio services, says it "combines the benefits of digital cellular telephony with group calling, dispatch functions, push-to-talk and high-speed data."

Tetra data transmission speeds are up to four times higher than data over GSM at 28,800 kilobits per second, and a data call can be set up more quickly.

Tetra also has some advantages over analogue mobile radio. Because it is a pan-European standard, it will be useful for truck drivers and others who travel to more than one country. Pan-European roaming can, of course, be achieved using mobile phones based on the Global System for Mobile (GSM) standard, but the advantage of Tetra is that it is good for group working.

Mr Henson says: "A sales manager could use group calling first thing each morning to gee up a group of sales executives. A supermarket chain could broadcast a message to drivers, or a police force could alert all officers to a bomb scare.

"Another big advantage of Tetra over analogue mobile radio, is that Tetra users can call anyone on any fixed or mobile network. They don't have to be on the same mobile-radio system."

Calls from Tetra to the fixed network are controllable, however. For example, a field engineer could be restricted to calling only his customers.

TIW is the first public network operator to begin building a Tetra network. There is also a test system in Helsinki using Nokia equipment in a private Tetra metropolitan-area network. TIW claims about 160,000 subscribers in total, with operations in France and Spain as well as a 60 per cent stake in Fleetcomm in the UK.

THINK TANK

Net profits for all online investors

Investing Online – a comprehensive global guide to the expanding world of finance on the Internet – forecasts a radical transformation

"No industry is likely to be affected more by the Internet than investment," writes derivatives expert Stephen Eckett in his book *Investing Online**. He says: "One in every 100 Web pages contain the word finance – slightly more than contain the word sex."

Mr Eckett predicts that in the future we could see personal finance programs that:

- Know our income and expenditure, age, life expectancy, and family details;
- Look after the household budget, automatically monitor prices at the online shops and order automatically;
- Arrange insurance, calculating their own "fair value" for insurance premiums;
- Advise on stocks to buy, level of risk to take and, if asked, trade the stocks automatically;
- Monitor currency movements and hedge potential outgoings (for example, foreign holidays);
- Monitor our portfolio's risk and rebalance when necessary;
- Monitor news broadcasts and all the world's markets; and
- Place spare cash on deposit at the best interest rates for overnight or term.

"Such a program might sound intrusive, frightening or ridiculous," says Mr Eckett "... but one thing it is not is science fiction."

Mr Eckett believes that the Internet is already levelling the playing field between institutional and retail investors. He says: "Until recently the former had investment skill, computers and proximity to markets (with up-to-date information and immediate trading ability)."

But now the retail investor can buy powerful software for PCs, while the Internet brings easy and cheap contact with the market. And, in the US, online trading can cost as little as $12 – irrespective of deal size.

He believes the Internet is good for generating investment ideas (by browsing through financial forums and Web sites), researching specific companies, and for monitoring share portfolios.

He says that US broker Charles Schwab expects 40 per cent of its business to come from online orders in the next four years – double the current 20 per cent.

Mr Eckett recommends that instead of just bookmarking useful sites within a Web browser, users set up a Web page with links to the sites. The web page can be edited like a word processing file so that when an investor switches stocks, it can be updated using search and replace commands.

The book is a refreshingly hype-free guide to investing online and includes a disk of links to financial sites.

** Investing Online, doing business in global markets on the Internet is published by FT Pitman Publishing and costs £39.99.*

AGENDA

Dates for your diary

March: Oftel statements on calls to mobile and interoperability. Consultation document on interactive services and subsidy recovery. Management plan for 1998 and beyond. Oftel director-general to speak at Economist Conference.
March 17&18: Final days of World Telecommunication Policy Forum, which began on March 16 (Geneva). ITU. Fax: +41 22 730 5881.
March 19-25: CeBIT '98 (Hanover, Germany): the world's largest exhibition for the information and communications industries, with 900 telecoms exhibitors in six halls, featuring voice, text and visual communications systems. Deutsche Messe. Tel: +49 511/89-0 Fax: +49 511/89-326 26
March 23-April 1: World Telecommunication Development Conference, WTDC-98 (Malta). ITU Development Sector/ Telemalta. Tel: +356 240 000 Fax: +356 246 389
March 26: ICSTIS (The Independent Committee for the Supervision of Standards of Telephone Information Services) Industry Committee seminar (London). ICSTIS: Tel: +44 (0)171 240 5511.
March 28-April 30: Access Technologies (London). Vision in Business. Tel: +44 (0)171 839 3391 Fax: +44 (0)171 839 3777/5111
March 30&31: GSM Road Telematics, Intelligent Traffic Applications for Mobile (London). AIC Conferences. Tel: +44 (0)171 242 2324 or Fax: +44 (0)171 242 2320.
March 30-April 1: Mobile Internet '98, Revenue winner for the next generation (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
March 31&April 1: Wavelength Division Multiplexing '98 (London). Vision in Business Tel: +44 (0)171 747 5423 Fax: +44 (0)171 839 3777
March 31&April 1: Tetra, Networks Going Live, Markets Going Global (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
March 31-April 2: Digital Commerce 98 (London). Business Intelligence. Tel: +44 (0)181 879 3355 or Fax: +44 (0)181 879 1122.
April 7-9: Fixed-Mobile Service Provisions FMS 98 (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 20-22: Data Broadcasting '98 (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 20-22: Service Bundling & Packaging in Telecoms (London). Vision in Business. Tel: +44 (0)171 747 5439 Fax: +44 171 839 3777
April 21&22: Value Added Services on Mobile Networks (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 21&22: Wireless in the Local Loop '98 (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 23&24: SIM '98 (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 27&28: Call Centre Excellence '98 (London). IBC UK Conferences. Tel: +44 (0)171 453 5494 Fax: +44 (0)171 636 6858
April 27&28: UK Digital TV Launches. IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 28&29: Italian Telecoms (London). IBC UK Conferences. Tel: +44 (0)171 453 5456 or Fax: +44 (0)171 636 1976.
April 28&29: SeCA '98 exhibition and conference on call centre technology and services (Paris). Tel: +33 1 41 18 86 18
April 30&May 1: Cyber Call Centres (London). The Yankee Group Europe. Tel: +44 (0)1923 246511 or Fax: +44 (0)1923 247566.
May 4-8: Africa Telecom 98, fourth international telecoms exhibition and forum for the African region (Johannesburg). International Telecommunications Union. Tel: +41 22 730 6161 or Fax: +41 22 730 6444.
May 5-7: Infobase – International Fair for Information and Communication (Frankfurt). Messe Frankfurt. Tel: +49 69 7575 6801 or Fax: 49 69 7575 6533. (Infobase runs parallel to Internet World Spring '98, which is also being held at Frankfurt Fair and Exhibition Centre).
May 6&7: The Mobile Corporation: Almost Here? (London). The Yankee Group Europe. Tel: +44 (0)1923 246511 or Fax: +44 (0)1923 247566.
May 7: Sixth meeting of the European Regulators group (London). ICSTIS. Tel: +44 (0)171 240 5511.
May 13: Y2K - The Challenge for Telecommunications Management (London). Quadrilect Conferences & Training. Tel: +44 (0)171 242 4141
June 1-19: Corporate Network Strategies (Munich, Frankfurt, London, Amsterdam, Madrid and Milan). The Yankee Group Europe. Tel: +44 (0)1923 246511 or Fax: +44 (0)1923 247566
June 8&9: Ermes Congress 98 (Copenhagen). Sinclair Mason PR. Tel: +44 (0)113 236 0077 Fax: +44 (0)113 236 0261


"When our engineers were in the Central Asian forests,
Inmarsat kept them in touch with the concrete jungle."

RETAILING

Consumers are being observed more closely than ever before as retailers join the drive for globalisation, reports **Peggy Hollinger**

Big brother is at your supermarket

Retailers are becoming entertainers - in South Africa, a mall with an animal park, adventure rides, a golf course and race track is planned

Big brother is watching you, but these days he is not the head of some omnipresent government. He is more likely to be the head of information technology at one of the world's leading retail companies.

European retailers are facing significant challenges over the next decade, and none more pressing than how to exploit the mountains of information they can collect on the shopping habits and lifestyles of their customers.

Retailers such as Tesco in the UK and Albert Heijn of the Netherlands can tell at a glance what types of food a customer prefers, the age of his children, when he goes on holiday, and even how often he has dinner guests.

The need for such information gathering is driven in part by the fact that northern Europe's leading retailers are finding it more difficult to expand organically in their own markets.

European retail sales have hardly moved ahead in the past two years, according to consultants Corporate Intelligence on Retailing, hovering at about $1.9 trillion.

Goldman Sachs estimates that the top 10 European retailers account for 56 per cent of the region's total retail sales and the next 40 generate a further 40 per cent.

UK retailers are beginning to wield their political influence more effectively, according to Ann Robinson, director general of the British Retail Consortium, the industry body which speaks for companies turning over a total of £160bn a year.

"We have had a number of successes in the past year," says Ms Robinson. Most importantly, the BRC claims credit for helping to achieve more favourable proposals on the duration of a dual pricing period when a single European currency is introduced.

"Politicians are beginning to see how important retailing is," she says. In the UK, it accounts for more than 10 per cent of total employment and 23 per cent of gross domestic product by expenditure. "Retailing is important to the economy," she says. "We are not only doing a good job in terms of operational excellence but are at the forefront of fulfilling consumer demands."

To grow, the big retailers have to look for ways of targeting the highest spending customers, according to retail strategists. "In the past business was simple," says Peter Scott of consultants Booz Allen and Hamilton. "Retailers cut costs and got the right mix and off they went. But retailing on a European basis is much more complex. The next wave of growth will come from a closer relationship with the consumer."

Doing this in the home market is one thing, but European retailers are also being forced by the saturation in their home markets to move abroad in growing numbers. A study by the Oxford Institute of Retail Management for property consultants Jones Lang Wootton found that the number of cross border moves made by retailers in the past seven years was almost double that during the 1980s.

Although the favourite destinations for foreign retailers were the UK, France, Germany and Spain, almost one-third of the moves were to the former eastern bloc countries of Poland, Hungary and the Czech Republic.

But increasingly retailers are choosing to move even further afield – to the Far East or Latin America.

Sir Geoff Mulcahy, chief executive of the UK retail conglomerate Kingfisher, argues that any retailer which is not making plans to move into such developing markets may have missed the boat for future growth.

The drive for globalisation came relatively late to the retail sector and has largely been led by supermarket and hypermarket operators. Although food is regarded as the most difficult product to transfer to new markets, due to widely differing eating habits, operators such as Carrefour of France and Tengelmann of Germany were among the pioneers of international expansion.

They have been successful partly because as hypermarket operators they have a product range wide enough to be adapted for local tastes. But they and others are also succeeding because consumer tastes are beginning to converge, according to Keith Oates, deputy chairman of Marks and Spencer, the UK retailer.

For example, in fashion, "everyone is wearing the same thing," he says. "So it makes selling clothing in different markets easier."

The development of new ways of shopping, such as interactive television and the internet, is expected to accelerate this process. According to a survey of European retailers by Cap Gemini, operators outside traditional mail order expect 13 per cent of their sales to be via home shopping within two years.

It is difficult to say how much of this remote shopping will be done internationally. But home shopping should give retailers greater access to new markets.

Retailers will then have to re-examine the impact this will have on their substantial property portfolios. The general consensus is that they will have to become entertainers, as much as retailers, to tempt consumers into the shops.

"If using the internet or interactive TV gives consumers access to their favourite retailer, they may be prepared to spend more time in the stores and thus expect an environment which majors on fun," says Mr Scott.

But shopping centre developers are going even further.

In South Africa, Old Mutual Properties has drawn up plans for a mall with an animal park, adventure rides, golf course and race track. Another shopping centre in the industrial Ruhr valley of Germany incorporates an indoor train and themed food courts.

But the growing demand for leisure as part of the shopping experience means that retailers will have to invest even more at a time when they already face spiralling costs.

International competition has put retailers under pressure to invest in customer service. Deregulation is forcing retailers to open for longer hours. And proposals from the European Union to give temporary workers the same rights as permanent staff threatens to impose significant extra burdens on wage costs.

But the biggest investments looming for retailers in the short term are the single currency and the impact of the millennium on their information systems.

While a single European currency should make international expansion easier in the long term, retailers will have to bear the costs of preparing for it. Most estimate the changeover will take between 1 and 2 per cent of annual turnover, and more for smaller retailers.

Sir Stanley Kalms, chairman of the UK's largest electrical goods retailer Dixons, recently estimated that his company would have to invest £10m in preparing for the millennium.

To outsiders, the pressures which retailers face in the next few years appear to be formidable. But Ann Robinson, director general of the British Retail Consortium, says retailers are more than able to meet the challenges. "In many ways retailing is coming of age," she says. "Politicians and other parties are beginning to realise that it is more than mere shelf filling, and that it is very important to a healthy economy."

THE EURO • by Neil Buckley

Even bigger than the millennium

The single currency is on its way but single prices may be some time

For retailers across Europe, the biggest date in the calendar in the next few years is not the coming of the new millennium, but "E-Day": January 1, 2002.

That is the day of introduction of the euro notes and coins, the final stage of Europe's move to a single currency. As the day when consumers first get their hands on the hard currency, the date is arguably even more important than January 1 next year, when the euro is launched as unit for accounting and electronic funds transfers.

The simultaneous launch of standardised notes and coins for 290m consumers across 11 countries – and possibly more if the UK, Sweden, Denmark or Greece join the founder members of the new currency before 2002 – is an event unparallelled in modern commerce.

For any retailers not properly prepared, it threatens to be a nightmare.

It comes during the post-Christmas sales, when shops are full of more staff and customers – and tills stuffed with more notes and coins – than at any other time of the year.

"The January 1 changeover is not good news at all," says Paul Smith, Euro project manager at Marks and Spencer, the UK-based retailer with stores in six continental European countries and franchised operations in three more. "We would have elected for a February change – the lowest point of the year in terms of notes and coins in circulation."

The retail sector lobbied hard to change the date, but without success. Europe wanted to keep the symbolic New Year start, and stick to the timetable set by the 1992 Maastricht Treaty.

But other details of the launch of the currency, currently in the final stages of discussion before being fixed by EU finance ministers at a special Brussels summit in May, may be more to retailers' liking.

Most important are the period of "*dual circulation*", when national currencies circulate alongside euro notes and coins, and "dual pricing", or the display of prices in both euros and the national currency. The latter is important both to help customers adjust to the new money, and ensure shops do not use its introduction to mask price increases.

EU states have already agreed dual circulation should last at most six months, with individual countries free to shorten the period if they wish. But a consensus is developing behind a "Big Bang" approach, with the transition limited to a matter of weeks, and for all countries to adopt the same period.

"Better to have a short transition, if a hard one, than a long period which is costly and confusing," says Henrik Kröner, secretary general of EuroCommerce the retail lobby group in Brussels.

One segment of retailing unhappy with the "Big Bang" approach is the operators of the EU's 3.2m vending machines, and 7m automatic service machines used to sell, for example, travel or car park tickets.

"Ten million coin acceptors cannot be changed in one day," warns the European Vending Association.

The Association is asking to be granted an extended transition period – with proper publicity to inform consumers – and for authorities to continue to supply consumers with "old" coins throughout the dual circulation period, for use in vending machines.

On dual pricing, the European Commission, the EU's Brussels-based executive, is recommending a voluntary approach, based on a code of good practice. Mandatory measures would be a "last resort" if retailers were judged not to be doing enough.

That will again be good news to retailers worried about the potential costs of widespread dual pricing. But consumer groups, which pressed for mandatory dual pricing from July 2001 to June 2002, say they will monitor retailers' behaviour carefully.

Retailers also know they inevitably have a central role in helping customers get used to using the new currency.

Not only will consumers be faced with conversion calculations involving awkward numbers, in countries such as Italy they will also confront sub-divisions of a currency for the first time. Shoppers will have to develop a whole new system of personal price reference points, and "price memory" – the 50 or so prices of common goods most consumers know by heart.

That puts significant training demands – and costs – on retailers, who must prepare staff to deal with confused shoppers.

Then there is the hardware and software. Cash tills and computer systems must be adapted to cope with the new money – just when retailers, like other sectors, are also having to cope with the year 2000 problem.

But some observers suggest that since most tills have a life of about five years, retailers would anyway be due to replace some or all of their till hardware between now and the launch of the notes and coins. That means the extra costs can be reduced, and staggered.

Total costs to retailers of the euro changeover may not be as high as was once feared. Most estimates put them at between 1 and 2 per cent of annual turnover, though for small shops the proportion could be higher. But the worst-case scenario put forward last year by EuroCommerce, which warned that the euro switch could cost European retailers up to Ecu27bn if they were forced to take on a heavy burden of obligations, has not come to pass.

The arrival of the single currency could, however, have a longer-term, more fundamental impact on retailers. For the first time, as EU consumers travel more and more, they will be able to compare directly the prices of goods from one country to the next.

That could affect all retailers in the euro zone - indeed, one of the main reasons for introducing the single currency is to complete the single European market and increase pressure for harmonised prices across Europe.

But Mr Smith of Marks and Spencer suggests that, in the medium-term at least, differing tax rates and wage costs will continue to lead to widespread differences in retail prices. The single currency is coming, but the single European price for any given product is still a distant prospect.

HOME SHOPPING • by Peggy Hollinger

Homing in on niche markets

Specialist catalogues are leading the sector's growth

After years of decline, the mail order market is beginning to take off again in Britain.

Verdict, the retail consultancy estimates that the market grew by 3.4 per cent in 1996, against a 2.1 per cent decline the year before, fuelled largely by the rapid growth in niche catalogues sent directly to consumers.

Retailers have been quick to spot the trend, with high street names such as Boots, Marks and Spencer and Laura Ashley targeting groups of customers with specialist catalogues.

Offering customers the ability to shop from the convenience of their own homes is no longer something which British retailers can afford to ignore.

A recent study by retail systems experts, ICL, found that almost 70 per cent of consumers surveyed wanted retailers to offer a home delivery service. Almost half liked the idea of making their purchases from home via a personal computer or television.

The rapid rise of the cash-rich and time-constrained consumer is forcing retailers not just in the UK, but in continental Europe, to rethink the ways they get products to customers.

Most are exploring the potential of electronic shopping, which one leading German mail order group, Quelle, estimates will account for 10 per cent of its sales by 2005. But, in reality, on-line shopping is an embryonic market and most observers forecast that it is unlikely to account for much more than 1 per cent of Europe's $2 trillion in retail sales over the next decade.

Mail order continues to be the traditional method of home shopping in the region, although characteristics of the markets vary from country to country.

In the UK, the market has historically served lower income consumers attracted by the credit they could not get elsewhere. The sector has long been dominated by Great Universal Stores and Littlewoods, which have placed almost as much importance on their finance businesses as on building retail brands.

In France and Germany, however, mail order has been far less class conscious, according to Mike Hawker, managing director of Empire Stores, the UK group owned by La Redoute of France. In part this is due to history. In Germany where shopping hours are severely restricted, mail order provides much needed access to products.

In France, mail order was born from the demise of the textile industry, and was always acceptable to a broader range of customers.

"La Redoute is a perfectly acceptable alternative shopping route for the middle class French consumer," says Mr Hawker, "whereas GUS is not acceptable to middle class Britain."

Mr Hawker argues that this makes the potential for mail order greater in the UK than in almost any other major European market. La Redoute has successfully introduced two of its French catalogues to more upmarket UK customers using Empire's infrastructure, but not its subsidiary's products.

"There is a market opportunity in Britain which does not exist in France or Germany," he says. "We have been able to use the continental brand to develop a marketplace that was not available to us with our own brand."

Moreover, Mr Hawker argues, the big players in the UK have been slow to introduce specialist catalogues to the niche markets which are driving most of the growth in mail order throughout Europe.

But consumers remain distinctly cautious about remote buying, in spite of their appetite for targeted catalogues. Although German mail order retailers have been quicker than their British counterparts to spot the niche catalogue trend, the sector accounts for roughly the same proportion of overall retail sales in both countries at about 4.5 per cent.

Stephanie Shern, vice chairman of Ernst & Young's consumer industry consultancy arm, argues that retailers should treat this with caution.

The rise of niche mail order is unlikely to tempt consumers into greater discretionary spending. In fact, she says, the experience in the US – where the niche market has been aggressively developed – actually suggests otherwise, she says.

"Total retail sales have been growing at between 2 and 3 per cent in the US for the last couple of years," she says. "That is not significant growth, but the channels of distribution are shifting."

While existing mail order companies might think they have a natural advantage, Ms Shern says they will have to focus more closely on building their brand image. The rapid growth enjoyed by mail order some five years ago has levelled off and the sector is beginning to consolidate, with weaker players falling by the wayside.

"In part the slowdown is due to the significant number of players we had," she says. The market had become too cluttered for consumers to make a choice.

Retailers such as luxury jewellery group, Tiffany's, and the department store chain, Saks Fifth Avenue, have clearly identifiable brand and value propositions. So they were natural candidates for niche catalogues and have been highly successful, she says.

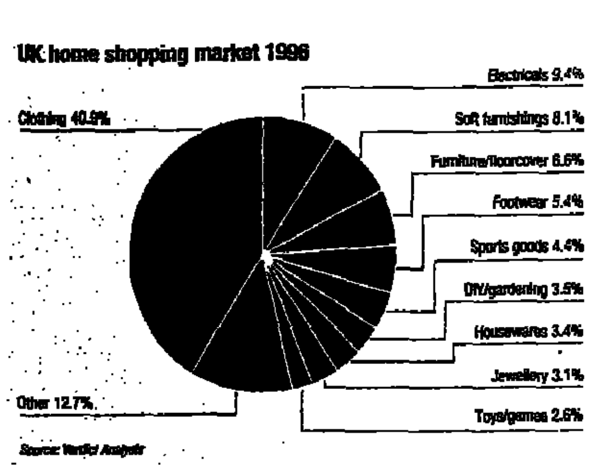
"The rise of the niche retailers has also forced a substantial restructuring of the traditional mail order houses in the US, says Ms Shern.

Spiegel, whose catalogue was once a fixture in every middle American household, has now abandoned retailing to focus on offering logistics expertise to those who want to enter the market.

This trend is beginning to emerge in the UK. Littlewoods, which claims 16 per cent of the UK market, recently announced a joint venture with Arcadia, the women's wear retailer, in which it provides the logistics to back up a home shopping product. It also last week agreed a second joint venture with Granada to develop a home shopping channel, not branded Littlewoods, later this year.

But beyond such moves, the big players in the UK have been slow to adapt. Building new brands from scratch takes time and few have been as willing as their continental counterparts to acquire small independent mail order retailers.

Yet the opportunities are clear to those within the industry, particularly with the approach of a single market in Europe which will eliminate the barrier of trading in different currencies. "Home shopping is the one truly international channel," says an executive from one independent mail order company. "You do not need stores and can sell to anyone."



Mail order sales: UK

£m

	1990	1991	1992	1993	1994	1995	1996
Sales	4720	4810	4925	5310	5530	6398	5400

Mail order market: Germany

Dm bn

	1990	1991	1992	1993	1994	1995	1996
Sales	29.4	36.1	36.5	36.0	34.6	36.1	37.8
of which (%)							
General catalogues	19.6	24.8	25.1	24.5	23.6	24.8	25.2
Specialist catalogues	9.8	11.3	11.4	11.5	11.0	11.1	12.0
Retail market share (%)	4.1	4.8	4.5	4.6	4.4	4.5	4.8

Source: BAG and SEMPCO, 1997

Mail order market: France

Ffr bn

	1990	1991	1992	1993	1994	1995	1996
Sales	40.9	42.8	46.1	47.7	47.7	47.2	47.7
of which (%)							
Clothing	43.4	43.1	43.0	42.4	40.8	40.1	40.0
Textiles	12.8	12.9	12.6	13.0	12.8	12.2	11.8
Furniture	15.7	15.1	15.7	16.0	17.3	17.9	18.8
Electrical goods	8.8	8.9	8.4	8.4	8.6	9.9	9.2
Other goods	19.3	20.0	20.3	20.2	20.7	20.8	21.0

Source: SEMPCO, 1997

The electronic revolution • by Paul Taylor

Making close links with shoppers

IT is being developed to improve 'relationship management'

In the increasingly competitive retailing sector, advances in IT systems such as data mining, multimedia kiosks and web-based commerce are helping businesses differentiate their services and enabling them to develop closer relationships with their customers.

"Expenditure on IT in European retail markets is booming as cut throat competition drives retailers to use technology to cut costs and help retain customer loyalty," said Datamonitor, the market research firm, in a report published last month.

According to Datamonitor, retailers in the six largest West European countries spent $10.8bn on IT systems last year, a figure which is expected to rise to $16.3bn by 2,002. Within those totals, retailers in Germany spent over $3bn on IT last year – the highest spending in Europe – but will be overtaken by UK-based retailers who are expected to spend $5.3bn this year on IT.

Retailers, already under tremendous pressure on margins, are trying to reduce labour costs, improve customer retention and fine-tune pricing and inventory. To achieve this, they are deploying IT systems ranging from demand forecasting and logistics software, to self-scanners, electronic labelling systems and huge data warehouses.

"There is already a sustained pressure in the retail supply chain to reduce cost and this trend is set to continue," says IBM, one of the leading suppliers to the retail sector. According to a recent Harvard Business Review study, the cost of carrying inventory for a year is equivalent to at least a quarter of the price retailers pay for the product. Therefore a two-week inventory reduction represents a cost saving of nearly 1 per cent of sales and a significant boost to profits.

At the same time, retailers are using IT systems to personalise their offerings and switch from "demand-led" to "customer-focused" strategies in an attempt to differentiate their services and retain customer loyalty.

"Overall, there are two big vectors in retailing," says Julian David, marketing director for IBM Europe's distribution industry business unit. "Digitisation, in all its forms, and personalisation."

The strategic trend by the retailer is to move from "product-led" to "market-led". This is achieved by improving knowledge of the consumer and consequently increasing margins by more effectively positioning products, argues IBM, which last month launched a business intelligence initiative aimed in part at helping retailers develop "relationship management" strategies.

Business intelligence involves collecting, cleaning and organising the vast amounts of data available from point-of-sale systems, loyalty cards and other sources into a "data warehouse", and then using analytical tools to extract real value from the data.

Similarly, instead of undertaking a general mail-shot, IT systems are helping direct retailers and others totarget the customers deemed most likely to respond. At the same time, loyalty cards – increasingly likely to be smartcards rather than magnetic stripe cards – are being used to boost what analysts call "frequency of shop", especially in the food retailing sector.

Other back-office systems sort out "customer activity" by helping to classify shoppers by "type of purchase" and promoting goods that will appeal to them while in that frame of mind by product positioning or related discount offers.

Existing IT investments are also being used differently. When electronic point-of-sale (Epos) systems were introduced over a decade ago, they were mostly used for stock control and inventory management. Now, the data is used to identify trends and target consumers.

Retail-based data warehouses, such as those installed by NCR, the market leader, manage the records of transactions from a variety of processing systems and information sources such as electronic cash registers, inventory systems, weather records and customer demographics. They then enable users such as store managers to query the database.

Wal-Mart, the US retail chain which claims to operate the world's largest commercial data warehouse, uses the vast amounts of information stored there to guide its business. It is expanding the warehouse, based on the NCR Teradata system, from 7.5 terabytes to more than 24 terabytes – the equivalent of 6bn pages of text. "Every cost, every item is carefully analysed, enabling better merchandising decisions to be made on a daily basis," says Randy Mott, senior vice-president in charge of information systems.

In the UK, self-scanning systems are now beginning to be installed commercially.

Clearly, the internet, and the world wide web in particular, represents another emerging channel.

Many early entrants in the home shopping arena have been slow to take off or have failed. However, Christmas 1997 saw a rapid increase in internet-based consumer commerce in the US.

Forecasts for business-to-consumer electronic commerce vary wildly from a conservative $6.6bn in 2000 from Forrester Research to around $200bn from IDC and Input. Despite this, a Cap Gemini sponsored survey of European retailers published in March suggested the greatest uptake of electronic shopping by retailers will come not in the longer term, but over the next two years.

"Over the next decade, Internet shopping will steadily build for traditional store-based retailers to 13 per cent of total sales, and just over half of home shopping sales," says the Cap Gemini report. If such forecasts prove correct, web-based electronic commerce could bring about perhaps the most radical changes in retailing for decades.

THE SUPPLY CHAIN • by John Karonis

Small needs, big solutions

Category management is extending boundaries for retailers

The world of retailing is getting smaller every day and the global consumer is getting more demanding. While some retailers might view this as a barrier, tomorrow's retail winners recognise this as an opportunity and are rising to the challenge.

To understand these dynamics, one must first understand the forces driving this change.

Retailers are having to adapt to the growing expectations among consumers for round the clock service and for more personalised product offerings. There are also price cutting pressures. Retailers view low price as a differentiator to achieve competitive advantage.

The market has also been transformed by advances in technology and communication which has made rapid and accurate information flow between business functions possible.

Then there is the pull of emerging economies, such as eastern Asia, the Indian subcontinent, and South America. These will be the fastest growing consumer markets in the next century.

Finally, legislation is easing in many parts of the world, with trade barriers falling. However, retailers are at the same time having to deal with new and sometimes more costly environmental legislation.

Many retailers are also reorganising the way they operate, often around principles of category management, which seeks to exploit benefits from closer relationships between suppliers and retailers, takes a multi-disciplinary approach to products.

Inevitably this means the introduction of increasingly complex processes, but they must be easier to manage and control. This contradiction is apparent in the challenges facing each component in the traditional retail supply chain.

● Product development and sourcing: regional consumer preferences must be identified and products developed or sourced to satisfy these unique needs.

● Supplier management: this historically difficult relationship becomes even more complex, as language, cultural, and commercial impediments are introduced.

● Buying: negotiating prices based on the true profit contribution is made more difficult by currency fluctuations, extended transportation channels, and commercial practices unique to each culture.

● Merchandising: retailers must create the right mix of product to appeal to local needs, and still have rapid response processes in place when the mix must be changed or replenished.

● Distribution: this must be more diverse, with typically longer channels to move product from source to consumer. It also needs to accommodate market-specific packaging and environmental needs.

● Retail operations: again, there is a need to tailor product presentation and service offerings to each specific market.

Each component is underpinned by three critical supply chain principles: consumer preferences, and the resulting service and product offering, must reflect local cultural requirements. Broader purchasing, sourcing, and logistics capabilities must be developed, that bring in operational economies of scale. These processes must yield a consumer image which is consistent with the strategic vision of the global business.

As difficult as this may sound, there are retailers who are now successfully achieving this, on a global scale.

There are four key elements of a successful strategy. First, technology must be effectively used to capture, assess, and predict consumer demand. It must collect what is selling, and by working with sophisticated decision-making and forecasting tools, be able to predict the degree to which it will keep selling. This can be relayed back through the supply chain, enabling rapid replenishment.

Second, retailers must balance supply efficiency with demand variability. By sourcing fashion or seasonal items from the most responsive source, and commodity or staple items from the most cost-effective source, the supply chain is optimised to meet actual demand.

Third, there must be open partnerships with suppliers. This allows a sharing of demand information, on a local level, which can then be rolled up to a regional or global level for the manufacturer. Thus, production economies can be realised.

Finally, the costs of the supply chain must be visible. This requires an understanding of the true costs involved in sourcing, transporting, and selling products across a wide range of markets and cultures. Only then can the best supply chain decisions be made.

Who is doing this well today? A few retailers stand out, due to their ability to capitalise on these four competencies.

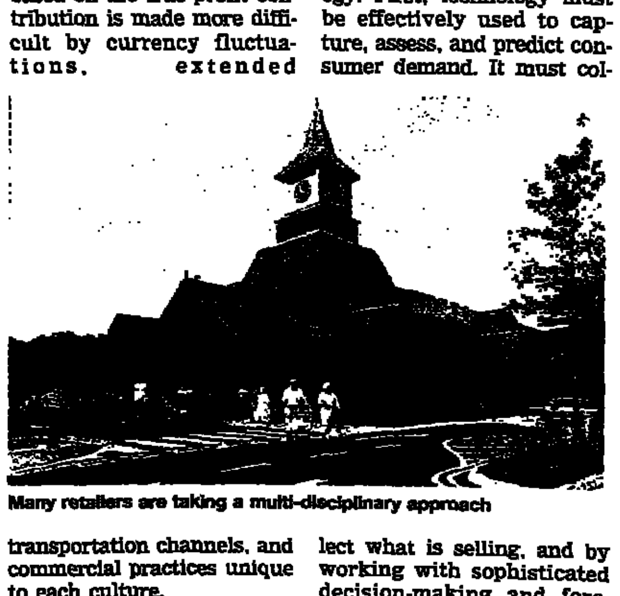
Marks and Spencer, the UK's largest clothing retailer, has extended its reach onto the continent and into Asia. Its success has been built on the back of a mature and controlled supply chain, centred on a vertically-integrated supplier group. Thus, product quality is consistent, logistics requirements are met, and the business has an "open book" regarding true supply chain costs.

WalMart, a US retailer, has moved its price/value competitive advantage overseas. In each new market, it has captured market share, by competing on price, rather than service. This price advantage is obtained through remarkably efficient supply chain process, seamlessly integrated with major suppliers, to achieve rapid and smooth response to consumer demand.

The Gap, the US retailer of casual clothing, maintains strict control over its supply chain, with its employees overseeing every step. Even in contract plants, Gap exercises control, thus ensuring that its customer receives consistent quality, at the best price, coupled with service that complements the brand's image.

In summary, "going global" represents a tremendous opportunity to expand the boundaries of a retailer's home market. Many retailers are indeed trying it, but not all are succeeding. Those succeeding share one critical attribute – the ability to respond to local consumer needs, while using efficient supply chain processes, on a macro scale, to achieve competitive advantage.

John Karonis is a principal of Kurt Salmon Associates



Many retailers are taking a multi-disciplinary approach

LEISURE • by Norma Cohen

The shop as a destination

Shopping is polarising - between convenience and entertainment

Is shopping a leisure activity?

Behind that question lies a raging debate over the design and management of shopping centres in which a growing number of real estate professionals are arguing that the two are inextricably linked.

"Shopping *is* leisure," says John Milligan, partner in the retail practice at property consultants Jones Lang Wootton. "If you don't make it a leisure activity, you're dead. What is worrying about retailing in the UK is that too many retailers don't understand that."

But even among those who accept the premise that shopping has an entertainment component, there is great disagreement over which type of retailing works best with leisure and over the sort of leisure which can be beneficially paired with shopping.

Gerald Ronson, chief executive of Heron, the international property developer, argues in favour of integration of the two first and foremost because it is the best way to ensure assets are working all the time. "You're not retailing at night," he says. "What do you do after 6pm? If you have the space you want to be operating it 18 hours a day."

For this reason, a growing number of UK shopping centres feature a multiplex cinema whose peak operating hours are after 6pm when most shopping has come to an end. Ms Jenefer Greenwood, head of European retailing at Hillier Parker, notes that these typically pay lower rents, perhaps £12 to £20 per square foot, when compared with other retailers who may pay up to £300 per square foot for Zone A rents.

"But maybe the promise of a trip to the cinema is the only way the mother can get the kids to behave," she notes.

However, the introduction of a cinema, with its evening operating hours, entices a far wider range of food retailers than may be prepared to occupy a shopping centre and these may be prepared to pay far more for the space.

Thus, the addition of a cinema encourages further daytime shopping and the growth of food courts, leading to a virtuous circle resulting in higher revenues for everyone.

Freeport Leisure, one of the few UK property developers to have grasped the concept, is building a 30-acre designer outlet and shopping village at a disused coalfield site near Leeds. Sean Collidge, chief executive, says the presence of a leisure element encourages spending. "We only put the leisure in to satisfy the non-shopper," Mr Collidge says.

"The non-shopper decreases the amount of money the shopper potentially will spend." Children, husbands and grandparents need to be catered for if the family's primary shopper is to select goods unhindered. Thus, while mum is shopping, the kids and the grandparents are busy spending money on enjoyable activities.

But even among those who embrace the concept, there is caution about what combination of leisure and retailing actually works.

Mr Ronson is developing retailing/entertainment complexes in Continental Europe. However, he cautions that the retailing element itself must contain a leisure theme. White goods superstores and food supermarkets, he says, will not be a feature. "We're thinking of music superstores, bookshops, that sort of thing," he says.

"The shopping centre has to be a destination," he argues. "It's a day out."

Simon DeBartolo, the US real estate investment trust which is America's largest owner of shopping malls, has experimented successfully with the mall-as-destination concept, most notably with its Mall of America in Minneapolis, Minnesota. It features a theme park in the centre and themed restaurants such as the Rain Forest Cafe which also sells T-shirts and endangered species soft toys.

However, Michael McCarty, senior vice president and head of market research, cautions against a headlong plunge into leisure/retailing development. "The conventional wisdom is that the entertainment and leisure component can enhance the value of a retail development," he *says*. "But it is not a panacea for a bad centre. It will make a good centre better but it will not make a bad centre survive."

The right entertainment component, he says, can be the ingredient which differentiates one mall from the next. Mall of America, for instance, draws 30 per cent of its shoppers from outside a radius of 150 miles. Families come to the mall for a long weekend, perhaps taking in a baseball game on the side.

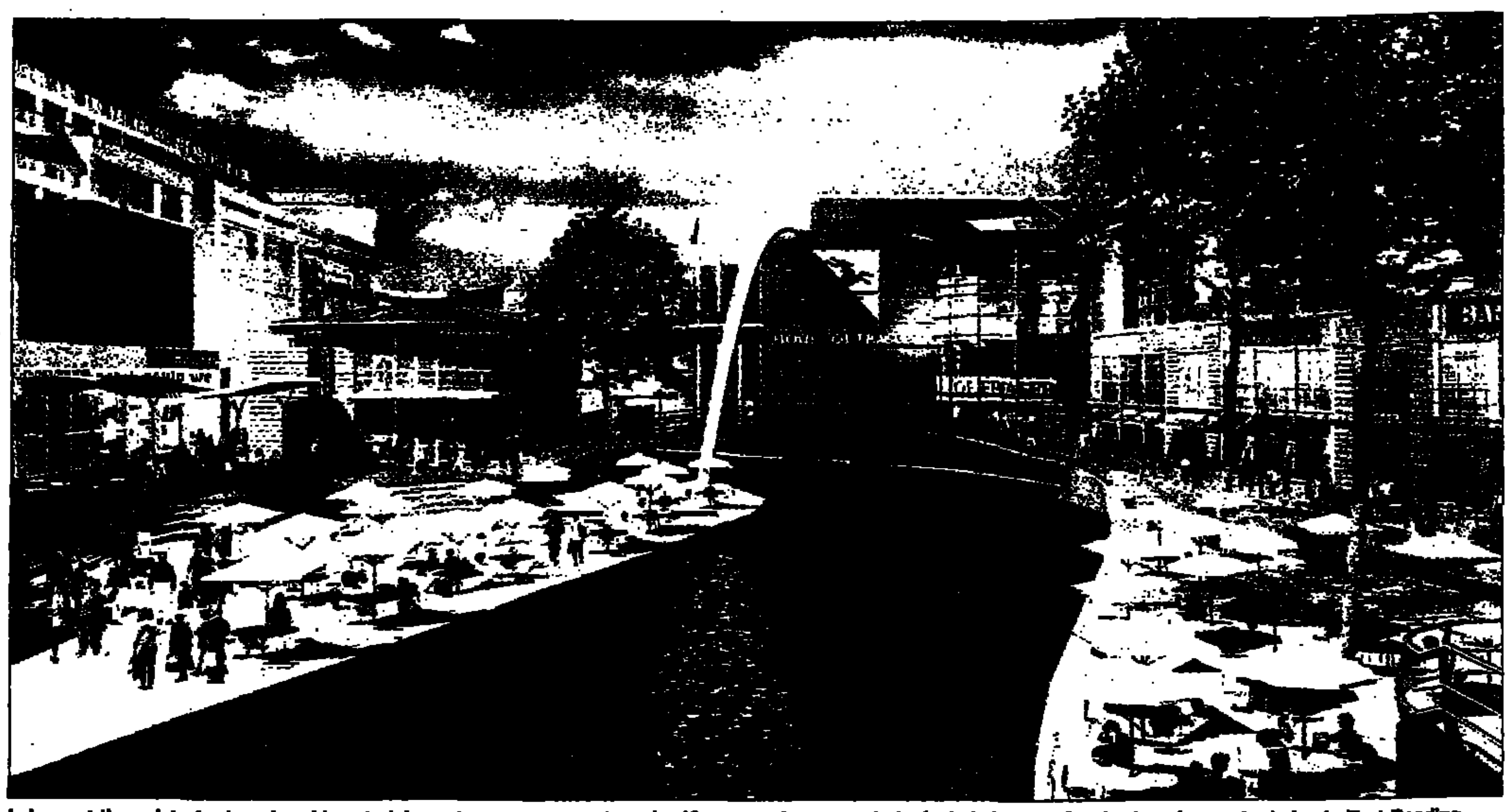
Still, some of the world's most successful retailers and property developers remain sceptics. "As a general statement, there's not much synergy at all" between leisure and retailing, argues Douglas Leslie, chief executive of Capital Shopping Centres, the UK's largest shopping mall owner.

Non-commercial activities such as swimming and fitness centres, he says, offer no synergy at all.

Peter Odlund, head of European property development for Ikea, argues that *siting a leisure facility at a* retailing centre is simply a waste of good parking spaces. "You need to assume one parking spot for every four cinema seats," he says. And those people are not shopping.

Moreover, the big boxes which cinema operators want to occupy take up space which could be leased to retailers, Ikea reckons. "In order for a mall to work, you have to have enough stores and big enough stores," he says. In order to draw shoppers from long distances, the mall has to have a critical mass of fashion retailers, he says. Leisure is a waste of space.

JLW's Mr Milligan argues that the debate reflects the increasingly fractured nature of the retailing market. Shopping is polarising into two camps; entertainment-type shopping and convenience shopping. For the latter, the quick in-and-out is the optimal style and leisure has no role to play.



Leisure at the point of sale – riverside entertainment zone, restaurants and a 10-screen cinema are to be included in The Oracle shopping centre being built at Reading

Finding a location is only the first step to expansion

"The three most important issues in retailing are location, location, location," said Sir Charles Clore, the 1950s entrepreneur and founder of *retail conglomerate, Sears, writes* Peggy Hollinger.

The sentiment remains as true today as ever, and is even more important as retailers begin to move beyond their home boundaries. "The most difficult nut to crack in expanding abroad is finding the right property," says one retailer.

But even once the location has been *pinpointed, retailers with global* ambitions are faced with widely differing regulations governing their rights and obligations as tenants. As the chart below shows, typical lease lengths vary from as low as three years in many eastern European countries to 25 years in Britain, where they can be reviewed every five years, but only upwards.

Extra property costs such as value-added tax are equally variable, from 25 per cent of annual net rent in Sweden to as low as 5 per cent in the Czech Republic.

Jones Lang Wootton, the property consultant, argues many of the opportunities for retailers to expand in north-western Europe have already faded due to saturation of the market. *However, proposals to increase* the membership of the European Union from 15 to 20 countries could result in "enormous benefits. Current barriers and tariffs hindering expansion would be removed," JLW says.

Guide to the major European retail leasing terms

	Typical lease length	Rent increases	Premiums and key money	Tenants' leasing fees	Other property costs
Czech Republic	5-10 years	Annually indexed to German cost of living	Rare	10% of annual rent	VAT: 5% of annual net rent (recoverable) Local property taxes: minimal
France	Minimum 9 years. Tenant has right to break at end of every 3-year period	Indexed annually to INSEE Construction Cost Index	Key money likely in some locations	Up to 30% of first year's rent	VAT: 20.6% of annual net rent (recoverable or 2.5% registration tax (not recoverable) depending on landlord. Local property taxes: none
Germany	Generally 10 years, with option for further 5 or 10 years	Turnover rent common, indexed to Cost of Living	Key money rare	15-20% of annual rent	VAT 16% of annual net rent (recoverable, sometimes paid to landlord) Local property taxes: none
Hungary	Normally 3-5 years	Annually indexed to Cost of Living (normally German)	Not usual	10-15% of annual rent	VAT: 20% of annual net rent (recoverable). Local property taxes: none
Ireland	20-35 years, breaks uncommon	Every 5 years to open market value	Payable by landlord or tenant depending on market, location and strength of retail covenant	10% of annual rent	VAT: 12.5% (recoverable) of capital value of the subject lease - usually only applies to newly built premises. Local property taxes: Approx 20% of current open market net rental values
Italy	6 years	Indexed annually to a maximum of 75% of Cost of Living	Key money is common and substantial in prime locations	10% of annual rent, and/or percentage of key money	VAT: 19% of annual rent (recoverable). Local property taxes: can vary considerably dependent on tenant's business activity and turnover
Netherlands	5-10 years, with break option after 5 years	Annual indexation, leases often provide for reviews at 5-10 years	Maybe payable on transfer of lease, depending on market value	12-15% of annual rent	VAT: 17.5% of annual net rent (recoverable). Local property taxes: varies between different cities
Poland	No standard yet, maximum 10 years fixed term	Indexed annually to consumer prices	Not usual	12-15% of annual rent	VAT: 22% of annual net rent (recoverable). Local property taxes: included in service charge
Spain	Leases vary pre-and-post 1995 [illegible] Law. New leases typically 3-10 years	Annual indexation to consumer prices and to market value on renewal. "Mid-term open market reviews rare"	Key money likely in traditional city centre locations	15% of annual rent	VAT: 16% of annual net rent (recoverable, payable monthly). Local property taxes: minimal
Sweden	5 years	Indexed to 75-100% of consumer prices index	Key money rare. Premiums Payable depending on market conditions	15% of annual rent	VAT 25% of annual net rent. Local property taxes: Included in rent
UK	25 years traditionally, but down to 10 years in [illegible]	Every 5 years	May be payable by Landlord or tenant on demand and strength of retail covenant	7-10% of annual rent	VAT: 17.5% of annual net rent (recoverable). Local property taxes: c. 50% of annual net rent

Note: In most cases the landlord will be responsible for structural repairs and recover some or all of the cost from the tenant. Internal repairs are usually the responsibility of the tenant. Outside the UK a rental deposit of 1-6 months is usually payable. Properties in modern, multi-development may be subject to a service charge of up to 15% of net rent

Source: Jones Lang Wootton

SPORTS RETAILING • by Patrick Harverson

Relegating less active sectors

To keep their eye on the ball retailers must monitor fashion and demographics

Despite some recent setbacks, UK sports goods retailers are still riding the crest of a wave, buoyed by the continued popularity among consumers of sport and branded sportswear.

In the past five years, sales of sports goods in the UK have grown by an average of just under 7 per cent annually, compared to just under 5 per cent for all retail sales.

A growing interest among consumers in most forms of sport both as participants and spectator/fans, favourable domestic economic conditions, the emergence of sportswear brands as fashion brands in their own right, and aggressive promotion of the top brands by global giants such as Nike, Adidas and Reebok, have all combined to fuel demand for sports goods and clothing.

The biggest beneficiaries in the UK have been the multiple retailers, led by (in descending order of market share) Sports Division, JJB Sports, Allsports, Blacks Leisure and JD Sports.

And according to analysts at Corporate Intelligence on Retailing, the sports goods sector is expected to continue to outperform the retail industry as a whole for the next few years. The consultancy is predicting the value of the UK sports and outdoor goods market will grow from £2.9bn in 1997 to £3.5bn by 2001.

However, those same analysts warn that the sales growth rate in the sector will begin to slowly decline in coming years for a variety of reasons. Perhaps the main, and certainly longest-term, concern is a demographic one; the numbers of 20-34 year olds in the UK are on the decline, which means the group responsible for the bulk of demand in the sports group market is shrinking, and quite rapidly.

However, the retailers are confident they can counteract any negative effects of this demographic trend by either selling more goods and clothing to existing customers – British consumers have a long way to go before they match their US counterparts in terms of how many pairs of trainers they own – or by attracting more business from people either side of the core age group.

For example, Sports Division, the largest sports retailer, has successfully attracted more family groups to its out-of-town stores. The 40-year old father shops there for golf equipment, his wife for fitness gear, and the 10-year son or daughter for a new bicycle.

Another worry is competition from general retailers, in particular the big supermarket groups that spy an opportunity to undercut the high prices of the specialist sports retailers by offering discounts on top brands like Nike and Adidas. Tesco and Asda have already dipped their toes into this market with moderate success.

Yet the specialist retailers are not unduly worried by this sniping from outside their sector. They believe the supermarket chains are only interested in making brief forays into the market and do not represent a long-term threat. They also believe most of their customers will prefer to buy from specialists offering the full range of branded products rather than go downmarket and pick up bargains from elsewhere.

This point was echoed recently in a report from Verdict Research, the retail consultancy, which said attempts by supermarket chains to steal market share from sports retailers would not ultimately work because "streetwise consumers do not want to buy such products from a supermarket."

Another, more plausible, threat to the sports retailers' peace of mind comes from the dreaded "F" word: fashion. One of the forces behind the recent growth in the popularity of sportswear brands has been the emergence of sports shoes and clothing as fashion items.

Yet the problem with being fashionable is that the sensation does not always last for long, and there is always the possibility that more trend-conscious consumers will desert the main sports brands for newer, non-sporting names – which is not good news for specialist retailers.

In the US, for example, sales of Nike sports shoes have suffered in the past year from the rising popularity of so-called "brown shoes" as brands such as Caterpillar and Rockport have become more fashionable among young consumers.

If the sports retailers are not to lose out, they will have to become more attuned to trends in the fashion world. This can be a dangerously unpredictable business, as JD Sports discovered last year when it ran into trouble after stocking its stores with too many products from sports brands that had, unbeknown to the retailer, become unfashionable with buyers.

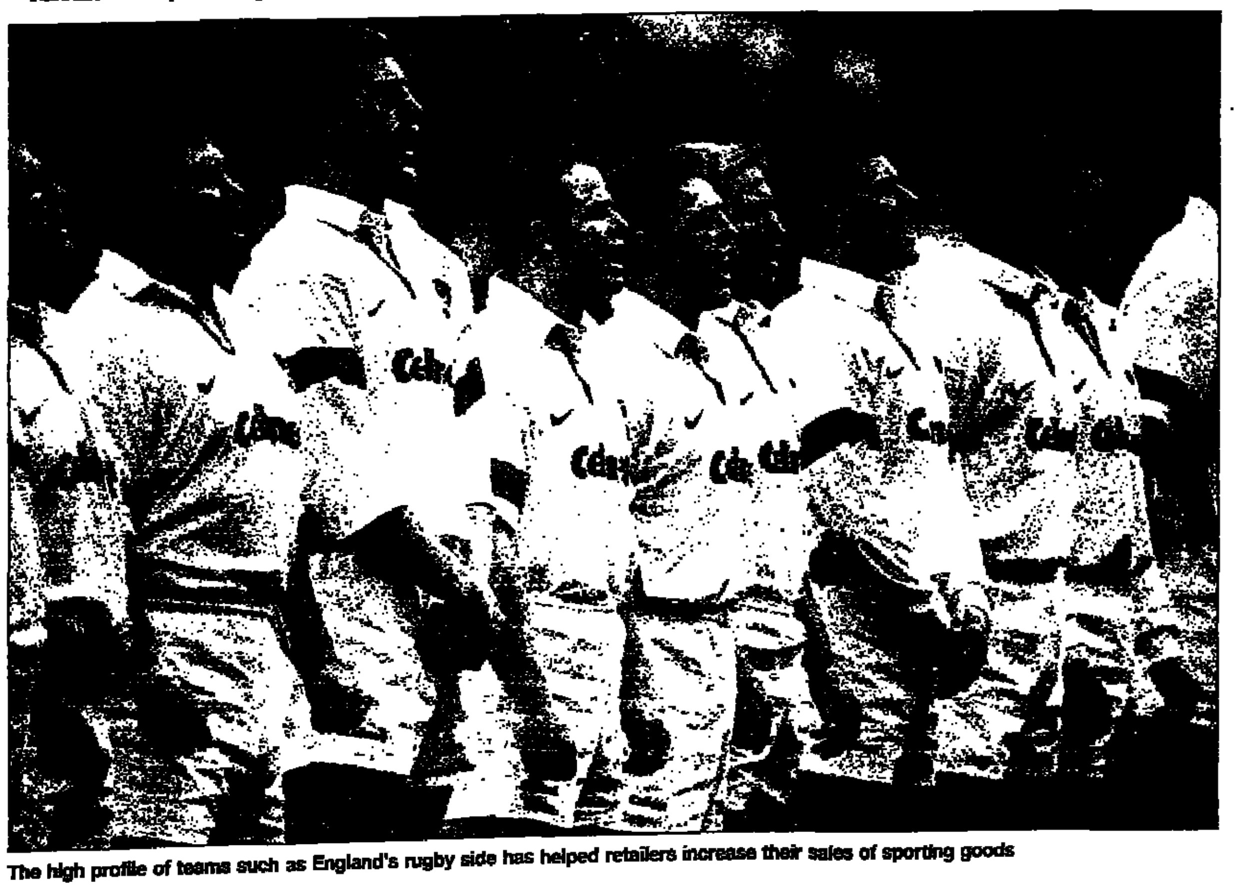
In spite of these broad concerns, it would be wrong to suggest the outlook for UK sports retailers is cloudy – just perhaps not as sunny as it has been. And this year the sector should enjoy a significant lift from the football World Cup. Should England do well, replicas of the national team kit will fly out of the shops.

As for which trends to look out for this year, further consolidation in the sector remains likely. With more than 2,500 independent sports retailers operating in the country, there are plenty of opportunities for the big players to grow through acquisition, although the lack of medium-sized chains means any expansion will be achieved in small steps rather than in leaps and bounds.

Another trend is more flotations. Market leader Sports Division is already committed to coming to the stock market this spring or early summer with a likely price tag of about £350m. Other possible candidates for public offerings include Allsports and Cobra.

Finally, Corporate Intelligence on Retailing warns that UK retailers may soon face competition from a foreign invasion. The US giant Sports Authority has been looking to expand in Europe (although Germany seems a more likely first target than the UK). However, a more immediate threat will come from Decathlon, Europe's biggest sports equipment retailer. The French groups plans a major expansion into the UK and is likely to represent real competition to domestic players.

On the subject of foreign arrivals to the UK, the single biggest event in sports retailing this year – at least in terms of the publicity hype – will be the opening of the country's first Nike Town superstore on London's Oxford Street. Nike may be having problems at home, but in the UK high street its trademark "swoosh" is still likely to draw a crowd.



The high profile of teams such as England's rugby side has helped retailers increase their sales of sporting goods

European retailing digest

UNITED KINGDOM

- The Economist Intelligence Unit recently reported that the UK was the second best place in the world to conduct business between 1997 and 2001 (Netherlands - first)
- 1998 began with growing economy, falling unemployment and subdued inflation
- Market concentrated with small number of large chains; top 100 retailers account for almost 70 per cent of sales
- Retail market by type of outlet is 62.3 per cent food; 37.7 per cent non-food
- Overall sales growth will be low but outlet centres offer growth potential
- Shopping becoming more of a leisure activity - new Bluewater complex, Kent, retailers debating extended hours
- Out of town development is hindered by tightening of planning policies
- Loyalty cards are booming
- Head of population per outlet: 202*

FRANCE

- Second largest economy behind Germany (half GDP is government spending)
- Under performing economy
- Double digit unemployment and 35 hour week – limiting consumer spending
- EMU participation has put spotlight on government deficit
- Average age of population is about 38 with 20 per cent over 60 and 20 per cent under 20
- Retail market by type of outlet is 30.1 per cent food; 69 per cent non-food
- Number of store openings down due to tight legislation; little available land
- More mergers and foreign investment in sight
- Retailers looking to increase profits with improved operations
- Hypermarkets dominate; most retailer segments are slow; speciality "high end" doing well
- Head of population per outlet: 169*

GERMANY

- 50 per cent larger economy than France
- Consumer spending flat with threat of gas tax and VAT increase
- 45 per cent corporate tax is increasing foreign investment
- Retail market by type of outlet is 19 per cent food; 81 per cent non-food
- Malls introduced, trying to increase customer service levels
- Convenience stores becoming important
- Expanded store hours
- Head of population per outlet: 196*

ITALY

- Two years of hardly any economic growth
- Government tightening fiscal policy for EMU
- 17 per cent of the popukation is over 65
- Retail market by type of outlet is 33.4 per cent food: 66.6 per cent non-food
- Retail market is fragmented; largest retailer, Co-op, is in the bottom third of top 100 global retailers
- Discounters are main instigators of competition, hypermarkets take share from department stores and supermarkets
- Head of population per outlet: 91*

*Sources: Deloitte Consulting; Corporate Intelligence on Retailing**